广东爱得威建设(集团)股份有限公司

ADWAY GUANGDONG ADWAY CONSTRUCTION (GROUP) HOLDINGS COMPANY LIMITED*

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock code: 6189

Annual Report 2018

* For identification purpose only

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. YE Yujing (葉玉敬先生)
Mr. LIU Yilun (劉奕倫先生)
Ms. YE Xiujin (葉秀近女士)
Mr. YE Guofeng (葉國鋒先生)
Mr. YE Niangting (葉娘汀先生)

Non-executive directors

Ms. LI Yuanfei (黎媛菲女士) *(Appointed on 19 March 2019)*
Mr. TIAN Wen (田文先生) *(Resigned on 19 March 2019)*

Independent Non-executive Directors

Mr. CHEUNG Wai Yeung Michael (張威揚先生)
(Appointed on 20 August 2018)
Mr. WANG Zhaowen (王肇文先生)
Mr. LIN Zhiyang (林志揚先生)
Mr. TANG Wai Man Raymond (鄧偉文先生)
(Resigned on 20 August 2018)

SUPERVISORS

Mr. ZU Li (祖力先生)
Mr. YE Weizhou (葉偉周先生) *(Appointed on 8 June 2018)*
Mr. TIAN Wen (田文先生) *(Appointed on 19 March 2019)*
Mr. WU Hanguang (吳漢光先生) *(Retired on 8 June 2018)*
Mr. YE Xian (葉縣) *(Resigned on 19 March 2019)*

AUDIT COMMITTEE

Mr. CHEUNG Wai Yeung Michael (張威揚先生) *(Chairman)*
(Appointed on 20 August 2018)
Mr. WANG Zhaowen (王肇文先生)
Mr. LIN Zhiyang (林志揚先生)
Mr. TANG Wai Man Raymond (鄧偉文先生)
(Resigned on 20 August 2018)

NOMINATION COMMITTEE

Mr. LIN Zhiyang (林志揚先生) *(Chairman)*
Mr. YE Yujing (葉玉敬先生)
Mr. WANG Zhaowen (王肇文先生)

REMUNERATION COMMITTEE

Mr. WANG Zhaowen (王肇文先生) *(Chairman)*
Mr. YE Guofeng (葉國鋒先生)
Mr. CHEUNG Wai Yeung Michael (張威揚先生)
(Appointed on 20 August 2018)
Mr. TANG Wai Man Raymond (鄧偉文先生)
(Resigned on 20 August 2018)

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN PRC

3rd Floor, Pengyi Garden Building 1
Bagua No.1 Road
Futian District
Shenzhen, PRC

STRATEGY COMMITTEE

Mr. YE Yujing (葉玉敬先生) *(Chairman)*
Mr. WANG Zhaowen (王肇文先生)
Mr. LIN Zhiyang (林志揚先生)
Mr. LIU Yilun (劉奕倫先生)
Mr. YE Guofeng (葉國鋒先生)

AUTHORISED REPRESENTATIVES

Mr. YE Guofeng (葉國鋒先生)
Ms. KOU Yue (寇悅女士)

AUDITOR

PricewaterhouseCoopers

H SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKS

Bank of China
China Construction Bank
Industrial and Commercial Bank of China
Bank of Beijing

JOINT COMPANY SECRETARIES

Mr. LIU Yilun (劉奕倫先生)
Ms. KOU Yue (寇悅女士) *(FCCA, CPA, MAcc)*

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2203, Level 22
Office Tower, Langham Place
8 Argyle Street
Mong Kok, Kowloon
Hong Kong

STOCK CODE

6189

COMPANY'S WEBSITE

http://www.aidewei.cn

FINANCIAL SUMMARY

(in RMB million, unless otherwise stated)

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2018	2017	2016	2015	2014
Revenue	**1,830.8**	1,672.8	1,728.5	1,659.7	1,479.7
Gross Profit	**253.1**	224.2	204.8	197.7	163.4
Gross Profit Margin	**13.8%**	13.4%	11.8%	11.9%	11.0%
Profit for the Year	**130.7**	115.8	107.6	100.7%	79.1
Net Profit Margin	**7.1%**	6.9%	6.2%	6.1%	5.3%
Basic and diluted earnings per share (RMB)	**61.69 cents**	54.89 cents	65.82 cents	63.62 cents	50.31 cents

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	As at 31 December				
	2018	2017	2016	2015	2014
Non-current assets	**136.3**	148.9	123.2	154.6	142.5
Current assets	**2,475.2**	1,969.4	1,442.1	1,180.5	1,176.3
Non-current liabilities	**1.7**	1.8	1.8	1.3	66.3
Current liabilities	**1,525.0**	1,216.3	779.1	860.5	880.9
Total equity	**1,084.7**	900.2	784.4	473.4	371.6

CHAIRMAN'S STATEMENT

Dear Shareholders:

On behalf of the Board of Directors (the "Board") of Guangdong Adway Construction (Group) Holdings Company Limited, I hereby presented to you the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018.

After listing for two years, we have achieved the fullest result in aspects such as performance development, corporate comprehensive management and brand enhancement, as well as bearing fruits for our Shareholders.

1. REVIEW OF THE 2018 RESULTS

In the past year, China's economic development has faced multiple onshore and offshore challenges with the entire market building decoration industry facing the same challenges. Under the downward pressure of the overall economy, the Group realized revenue of RMB1.83 billion for 2018, representing an increase of 9.4% over year 2017 and outperforming the 2018 domestic GDP growth. During 2018, the Group sustained its steady increase in performance and realized the Group's strategic planning set at the beginning of the year.

2. 2018 WORK REVIEW

During 2018, the Group boosted our development mainly in the following four aspects:

(1) Consolidate domestic performance, enhance the performance of the branch office and explore the market whitespace

The Group's marketing management center implemented the operating strategy of "results as king, marketing by all" ("業績為王、全員營銷"). We consolidated our development and enhanced our competitiveness by closely integrating the power of the marketing department and the marketing team while upgrading the regional performance through market layout.

(2) Standardize the management system and establish a management system mechanism

The Group established a target mechanism, incentive mechanism, constraint mechanism and competition mechanism by centralizing its management core value. This form a series of favourable cycle for work and management norms, promoting the main business into a healthy and rapid development.

(3) Focus on boutique projects and expand the brand influence

The Group continued to consolidate and enhance its role with full license and qualification, enhancing the Group's market access; and to continuously achieve its corporate mission by inheriting Luban's exquisite craftsmanship, upgrading the quality of decoration through technology and creating boutique projects that lead the era. Some of the boutique projects has achieved various awards.

(4) Strengthen the establishment of talent team

The Group paid effort in attracting and cultivating the talents for the Group and the industry, establishing an elite team of broad horizon, bold vision and teamwork.

3. THE GROUP'S DEVELOPMENT PROSPECTS IN 2019

2019 will be a year of new voyages, new goals and new improvements.

We will make better effect on onshore and offshore markets and consolidate the business foundation in the first-tier cities. In order to scale another height for the development of the Group, we will also tie in with President Xi Jinping's call to develop the Guangdong, Hong Kong, Macao Greater Bay Area by integrating into the economic wave of the Guangdong, Hong Kong, Macao Greater Bay Area and seizing the opportunities in the establishment.

(1) "Results as king, marketing by all" will remain as the Group's development strategy, enhancing the Group's value and the benefit of the Shareholders.

(2) The entire development will be directed by the best interest of the Group with innovative operation model and opening up of new regional markets.

(3) The management of staff, capital, resources and information will be organized with the integration of the resources inside and outside the Group so that the Group's platform for industry + finance + technology + brand can be established and built together with the value created.

(4) The leadership and execution power will be enhanced with continuous deepening in the Group's comprehensive management, standardized governance, credit improvement and brand influence.

(5) The Group's ability in control management will be complemented, preventing various types of risks.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our dedicated employees and management team for their commitment, diligence and professionalism. I would like to express my heartfelt thanks to our shareholders and our partners for their continuing support, trust and care for the Group. We will not forget our original goal and continue to commit to offer international first-class green decoration services.

Ye Yujing
Chairman

DIRECTORS

Executive Directors

Mr. YE Yujing (葉玉敬), aged 53, one of the founders of our Group, has been the Chairman and an Executive Director of our Company since its establishment on 18 December 1996. Mr. Ye has been appointed as the chief executive officer since 10 April 2012 and is primarily responsible for our Group's development, strategic planning, positioning and overall operational management. Mr. Ye is the husband of Ms. Ye Xiujin, the father of Mr. Ye Guofeng, and the elder brother of Mr. Ye Xian's father. Mr. Ye completed a education programme in civil engineering offered by China University of Geosciences (中國地質大學) in July 2007 and subsequently obtained his executive master of business administration (EMBA) from Xiamen University (廈門大學) in June 2016. Mr. Ye has over 30 years of experience in the civil engineering and construction industries. Prior to the establishment of our Company, Mr. Ye had worked as a sales executive in the second engineering department of Shenzhen Wenye Decoration Design Engineering Company Limited* (深圳市文業裝飾設計工程有限公司) (currently known as Shenzhen Wenye Decoration Design Engineering Joint-Stock Company Limited* (深圳市文業裝飾設計工程股份有限公司)) from January 1987 to January 1993, and as a manager in the Xincheng decoration department of Shenzhen Bao'an District Decoration Construction Consolidated Company Limited* (深圳市寶安區裝飾工程聯合公司新城裝飾部) from February 1993 to October 1996. Mr. Ye was a member of the sixth and seventh session of the Luhe County Guangdong Province Committee of the Chinese People's Political Consultative Conference (CPPCC) (廣東省陸河縣政協). Mr Ye currently is a member of the 5th standing committee and the vice president of the Social Committee of the Futian District of Shenzhen Committee of CPPCC (深圳市福田區政協委員會) and is also a member of the 8th Standing Committee of the Luhe County Guangdong Province Committee of CPPCC, a member of the Central Economic Committee of China Democratic League (中國民主同盟), the vice president of the Public Administration Committee and the vice president of Futian Branch of Shenzhen Committee of China Democratic League, and the honourable president of the Hong Kong Shanwei Luhe Overseas Association (香港汕尾市陸河海外聯誼總會), a standing director of the China Building Decoration Association (中國建築裝飾協會), the vice president of Federation of Shenzhen Industries,the vice president a of the Shenzhen Decoration Association,the executive vice president of Shenzhen City Fuyi Public Welfare Foundation (深圳市福醫基金會). Mr. Ye was awarded by CBD Association as "National Outstanding Entrepreneur of Building Decoration Industry"* (全國建築裝飾行業優秀企業家) and "National Outstanding Project Manager of Building Decoration Industry"* (全國建築裝飾行業優秀項目經理) in December 2009 and June 2014 respectively. He was qualified as a senior engineer (高級工程師) in May 2009 and acquired the Certificate of Registration of Constructor of the PRC (中華人民共和國一級建造師註冊證書) in February 2009.

Mr. LIU Yilun (劉奕倫), aged 46, was appointed as an Executive Director on 19 September 2015. He joined our Company as the general manager of the securities department on 27 April 2015. Mr. Liu is mainly responsible for overseeing our Group's development, strategic planning, positioning and overall operational and risk management. Mr. Liu graduated from Beihang University (北京航空航天大學) with a bachelor's degree in economic management in July 1994 and earned his master's degree in economics from Guangdong Academy of Social Sciences (廣東省社會科學院) in July 2002. He acquired the Securities Qualification Certificate (證券從業資格證書) issued by the Securities Association of China (中國證券業協會) in December 2001. Before joining our Company, Mr. Liu had worked as the general manager of the investment department in Beijing Securities Co. Ltd. Shenzhen Branch* (北京證券有限責任公司深圳業務部) from July 1994 to May 1998 and as the general manager of the securities department in York Point S&T Co., Ltd. Guangdong* (廣東億安科技股份有限公司) (now known as China High-speed Railway Technology Co., Ltd.* (神州高鐵技術股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange with stock code 000008.SZ), from May 1998 to March 2001. Thereafter, Mr. Liu worked as a general manager in Shenzhen Wanlitong Investment Guarantee Company Limited* (深圳市萬利通投資擔保有限公司) from October 2007 to November 2013. He later served as the chief executive officer of Guosen Business Factoring Co., Ltd* (國信商業保理有限公司) from December 2013 to March 2015.

Ms. YE Xiujin (葉秀近), aged 52, was appointed as an Executive Director on 1 July 2008. She joined our Company since its establishment and has been primarily responsible for advising on the strategic development and corporate governance of our Company, formulating our Company's corporate and business strategies, and providing assistance to Mr. Ye Yujing. She has also worked in the accounting department of our Company. Ms. Ye is the wife of Mr. Ye Yujing, the mother of Mr. Ye Guofeng, and the sister-in-law of Mr. Ye Xian's father. Ms. Ye acquired the qualification of accountant issued by the Ministry of Finance of the People's Republic of China (中華人民共和國財政部) in May 2000.

Mr. YE Guofeng (葉國鋒), aged 31, was appointed as an Executive Director on 30 July 2013. Mr. Ye joined our Company on 15 September 2011 and worked as an assistant to Mr. Ye Yujing starting from April 2012. He was later promoted to the position of marketing director and manager of the procurement department in May 2014. Mr. Ye is currently responsible for advising on strategic development and corporate governance of our Group. Mr. Ye is the son of Mr. Ye Yujing and Ms. Ye Xiujin, and the elder cousin of Mr. Ye Xian. Mr. Ye graduated with an associate degree from Shenzhen Polytechnic (深圳職業技術學院) majored in construction management in June 2011. He later completed the top-up courses in civil engineering (construction) offered by China University of Geosciences (中國地質大學) through online education in July 2014 and obtained a bachelor's degree in engineering in December 2014. Mr. Ye was qualified as a safety officer (安全員) and a decoration construction officer (裝飾施工員) issued by Guangdong Construction Education Association (廣東省建設教育協會) in November 2011. Mr. Ye was also awarded as "Outstanding Entrepreneur of China Building Decoration in the past thirty years* (中國建築裝飾三十年優秀企業家)" by the CBD Association and China Construction Newspaper (中華建築報社) in December 2014.

Mr. YE Niangting (葉娘汀), aged 38, was appointed as an Executive Director and a vice president on 22 May 2014 and is primarily responsible for conducting project evaluation for our construction projects and advising on strategic development and corporate governance of our Group. Mr. Ye joined our Company on 14 October 2008 as deputy manager of the operation department, and was promoted to manager of that department in April 2012. From February 2013 to April 2014, Mr. Ye was the manager of division 1 of the operating department of the Company and the general manager of the operation management centre, directly reporting to Mr. Ye Yujing. He also assists Mr. Ye Yujing in our business expansion and operation management and undertakes responsibility in managing our operation management centre. Since joining our Group in October 2008, Mr. Ye has been involved in a number of construction projects in different capacities and has accumulated substantial experience in areas including project development and project evaluation. In respect of project evaluation, Mr. Ye is responsible for the final approval of our project evaluation reports for all of our potential construction projects, after considering opinions from the supervising business manager and our technical department. Mr. Ye graduated from Dalian University of Technology (大連理工大學) majored in civil engineering in July 2009 through online education. Prior to joining our Company, Mr. Ye was a manager of Beijing branch of Shenzhen Bauing Construction Group Co., Ltd.* (深圳市寶鷹建設集團股份有限公司) from October 2005 to October 2008 where he was responsible for business development in Beijing and surrounding regions. Mr. Ye was appointed as a visiting professor of Shanghai Art & Design Academy (上海工藝美術職業學院) in July 2015 for a term of three years. On 31 December 2018, Shenzhen Gongxiangli is owned as to 8.3951% by Mr. Ye who is its limited partner.

Non-executive Director

Ms. Li Yuanfei (黎媛菲), aged 37, graduated with a bachelor's degree in Economics from the University of Shanghai for Science and Technology (上海理工大學) in 2002 and a master's degree in economics from Fudan University (復旦大學) in 2005. Ms. Li's working experience focuses primarily on securities, fund and finance businesses. From September 2005 to February 2009, she was an associate in the high technology media telecommunications (TMT) group at Merrill Lynch investment banking, where she was responsible for capital operation such as enterprise listing, equity and debt financing, reorganization and merger. From April 2009 to March 2011, she was a vice president in Crimson Capital, a private equity fund, where she was the principal of private equity investment business. From April 2011 to August 2016, she was the executive general manager and the director of large consumer industry group in investment banking department of China International Capital Corporation Limited, an investment bank. Since September 2016 and currently, she is a managing partner of Shenzhen Qianhai Xingwang Investment Management Co., Ltd* (深圳前海興旺投資管理有限公司), which is principally engaged in the business of providing professional fund management services for private equity funds and venture capital investment funds.

Independent Non-executive Directors

Mr. WANG Zhaowen (王肇文), aged 72, was appointed as an Independent Non-Executive Director on 31 May 2017. Mr. Wang obtained a bachelor's degree in journalism from Beijing Broadcasting Institute (now known as Communication University of China (中國傳媒大學)) in July 1969. He worked for the political department of Gansu Revolutionary Committee (甘肅省革委會政治部) from August 1970 to August 1971. From August 1971 to August 1991, he worked for Lanzhou Chemical Industry Corporation (蘭州化學工業公司). Thereafter, he worked for Shenzhen Petrochemical Group (深圳市石化集團) from September 1991 to January 1993, Shenzhen Investment Management Co., Ltd. (深圳市投資管理公司) from January 1993 to May 1996, and Shenzhen Energy Group (深圳市能源集團) from May 1996 to October 2007 respectively. He is currently the permanent chairman of the Federation of Shenzhen Industries (深圳工業總會). He has been an independent director of several companies listed on the Shenzhen Stock Exchange, including (1) Shenzhen Hongtao Decoration Co., Ltd. (深圳市洪濤裝飾股份有限公司) (stock code: 002325.SZ) since 2013, (2) Shenzhen Sunshine Laser & Electronics Technology Co., Ltd. (深圳光韻達光電科技股份有限公司) (stock code: 300227.SZ) since 2015 and (3) HL CORP (Shenzhen), Ltd. (深圳信隆健康產業發展股份有限公司) (stock code: 002105.SZ) since 2016 respectively.

Mr. CHEUNG Wai Yeung Michael (張威揚), aged 44, obtained a Bachelor of Business Administration in Accounting from the University of Wisconsin — Madison, school of business, Wisconsin, USA in 1997. He has been the chief operating officer of TBWA China since July 2018 and chief financial officer from May 2015 to June 2018. He is also the chief operating officer of TBWA HAKUHODO China since January 2019 and chief financial officer from September 2015 to December 2018. He worked with ThreeSixty Group as the chief financial officer from August 2011 to May 2015. He was an executive director overseeing business operations and finance in media distribution and a regional finance director of The Walt Disney Company (Asia Pacific) Limited during the periods of April 2010 to August 2011 and March 2007 to March 2010 respectively. He worked with STAR Group Limited as a vice president in charge of business operations from September 2004 to March 2007 and as a senior finance manager from July 2002 to August 2004. He was an auditor at Arthur Andersen & Co from July 1997 to June 2002. In addition, Mr. CHEUNG became a member of the American Institute of Certified Public Accountants on 31 December 1997, and a Chartered Financial Analyst (CFA) charterholder on 13 September 2002. He became a member of the Hong Kong Institute of Certified Public Accountants on 20 February 2012, and a Chartered Global Management Accountant certified by the American Institute of Certified Public Accountants on 1 May 2012.

Mr. LIN Zhiyang (林志揚), aged 63, was appointed as an Independent Non-executive Director on 21 August 2015 and is mainly responsible for supervising and providing independent viewpoint to our Board. Mr. Lin obtained his bachelors degree, master degree and doctorate degree all in economics from Xiamen University (廈門大學) in February 1980, February 1985 and September 2002, respectively. Mr. Lin had been working in Xiamen University since February 1985. He was appointed as the vice dean of the corporate management department under the business school from October 1987 to October 1996, and was then promoted to the vice president of the management school and the dean of corporate management department from October 1996 to March 1999. From March 1999 to October 2007, he served as the vice president and was appointed as the secretary of the party committee of the management school from October 2007 to January 2013. Mr. Lin was a professor and a PhD tutor in the business school but now retired. Mr. Lin has served as an independent non-executive director in several companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, including Fujian Longxi Bearing (Group) Co., Ltd* (福建龍溪軸承(集團)股份有限公司) (stock code: 600592.SH) from April 2008 to March 2014, Fujian Expressway Development Co., Ltd* (福建發展高速公路股份有限公司) (stock code: 600033.SH) from April 2009 to June 2015, San'an Optoelectronics Co., Ltd* (三安光電股份有限公司) (stock code: 6000703.SH) from November 2007 to November 2013 and Fujian Guanfu Modern Household Joint-stock Company Limited* (福建冠福現代家用股份有限公司) (stock code: 002102.SZ) from October 2008 to June 2015. He served as an independent director in Taiya Shoes Co., Ltd.* (泰亞鞋業股份有限公司) (now known as Kingnet Network Co., Ltd.* (愷英網絡股份有限公司)) (stock code: 002517.SZ), a company listed on the Shenzhen Stock Exchange. Mr. Lin is currently acting as an independent director in Fujian Zhangzhou Development Co., Ltd.* (福建漳州發展股份有限公司) (stock code: 000753.SZ), a company listed on the Shenzhen Stock Exchange, in Joeone Co., Ltd.* (九牧王股份有限公司) (stock code: 601566.SH), a company listed on the Shanghai Stock Exchange, Luyan Pharmaceutical Holdings Co., Ltd* (鷺燕醫藥股份有限公司) (stock code: 002788.SZ), and Clenergy (Xiamen) Technology Co., Ltd. (清源科技(廈門)股份有限公司) (stock code: 603628).

BOARD OF SUPERVISORS

Mr. ZU Li (祖力), aged 59, was appointed as a Supervisor on 31 May 2017. Mr. Zu obtained a bachelor's degree in dyeing works (染化工程) from Zhejiang Silk Textile Institute (浙江絲綢工學院) in July 1985 and worked for Liaoyuan Silk Dyeing and Printing Plant (遼源市絲織印染廠) from August 1985 to December 1987. From January 1988 to December 1990, he worked for Yuanle Plush Company Limited (中外合資源樂毛絨有限公司) as a vice general manager. He worked for Jilin Liaoyuan Textile Bureau (中國吉林省遼源市紡織局) as a chief of sector from January 1991 to April 1992. From May 1992 to May 1997, he was a general manager of Jilin International Economic and Technology Cooperation Company Limited Shenzhen Branch (中國吉林國際經濟技術合作公司深圳分公司). He was a general manager of Shenzhen Hengduo Trading Company Limited (深圳市恒多貿易有限公司) from May 1997 to December 2001 and a general manager of Ruixin Xingye Investment Consultant (Shenzhen) Company Limited (瑞信興業投資諮詢(深圳)有限公司) from January 2002 to the present.

Mr. YE Weizhou (葉偉周), aged 28, was appointed to be the supervisor as representative of the Company's staff in June 2018, Mr. Ye gained his bachelor's degree in project management from Guangdong Industry University in July 2015. Currently he works as the funding associate in the finance department of the Company. He was granted the certificates of both Quality Control Officer and Safety Officer in May 2015. And he was granted the C level certificates in safety evaluation in September 2015.

Mr. TIAN Wen (田文), aged 39, was appointed as a Non-executive Director of our Company on 12 June 2012 and is mainly responsible for participating in the formulation of our Company's corporate and business strategies. Mr. Tian resigned as a Non-Executive Director and was appointed as a Supervisor of our Company on 19 March 2019. Mr. Tian graduated from the Faculty of Accounting of the School of Business in Renmin University of China (中國人民大學) with a bachelor's degree in economics in July 2002 and obtained his degree of Master of Business Administration in Finance in November 2012 from the Chinese University of Hong Kong (香港中文大學). Prior to joining our Company, Mr. Tian worked in the assurance department in PricewaterhouseCoopers Zhongtian LLP, Shenzhen office from August 2002 to April 2010, and successively served as junior auditor, senior auditor and deputy manager of the assurance department. Mr. Tian is currently an investment vice president of Shenzhen Co-Win Asset Management Co., Ltd.* (深圳同創偉業資產管理股份有限公司) and a director in Shanghai Neoent Industrial Co., Ltd.* (上海紐恩特實業有限公司).

SENIOR MANAGEMENT

Mr. LIU Yilun (劉奕倫), is a vice president appointed on 21 August 2015 and a joint company secretary appointed on 16 September 2015. For biographical details of Mr. Liu, please refer to the paragraph headed "Executive Directors" above in this section.

Mr. YE Guofeng (葉國鋒), is a vice president appointed on 21 August 2015. For biographical details of Mr. Ye, please refer to the paragraph headed "Executive Directors" above in this section.

Mr. YE Niangting (葉娘汀), is a vice president appointed on 22 May 2014. For biographical details of Mr. Ye, please refer to the paragraph headed "Executive Directors" above in this section.

Ms. KOU Yue (寇悅), aged 45, was appointed as a vice president on 21 August 2015, as a joint company secretary and the chief financial officer on 16 September 2015, responsible for the financial management of our Company. Ms. Kou graduated from Tianjin Finance and Economic University (天津財經大學) with a bachelor's degree in international trade in July 1996. Thereafter, she gained a master's degree in banking from City University of Hong Kong (香港城市大學) and a master's degree in accountancy from Chinese University of Hong Kong (香港中文大學) in November 2005 and December 2008, respectively. Ms. Kou is also a member of the Chinese Certified Public Accountant (CICPA), the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Ms. Kou has 20 years of working experience in finance and accountancy. She had worked for Tianda Tiancai Company Limited* (天大天財股份有限公司) (now known as Tianjin Xinmao Science and Technology Co., Ltd.* (天津鑫茂科技投資集團), the shares of which are listed on the Shenzhen Stock Exchange with stock code 000836.SZ) as an accountant from September 1996 to September 1999. From September 1999 to October 2002, she had worked in the Assurance & Business Advisory Department of Ernst & Young, Beijing where she was responsible for pre-listing and post-listing annual auditing for companies listed in Hong Kong and the PRC. Ms. Kou then served as the finance manager in China Data Broadcasting Holding Limited (中華數據廣播控股有限公司) (now known as Changhong Jiahua Holdings Limited (長虹佳華控股有限公司), the shares of which are listed on the GEM of the Hong Kong Stock Exchange with stock code 8016.HK) from October 2003 to February 2006 and vice president in KASH Strategic Holding Limited (嘉裕策略有限公司) from February 2006 to July 2006. From August 2006 to September 2007, Ms. Kou had served as an audit supervisor in Zhong Yi (Hong Kong) C.P.A. Company Limited (中逸(香港)會計師事務所有限公司). Thereafter, she worked as a manager for Thomas Lee & Partners Ltd. (瑞信國際有限公司) from October 2007 to May 2011, as a manager for GDTCPA Limited (嘉信會計師事務所有限公司) from June 2011 to January 2013, and as an audit manager in W. L. Ho & Co., CPA (何慧玲會計師事務所) from October 2013 to June 2015. She joined our Company in August 2015.

* *For identification purpose only*

MARKET REVIEW

Throughout 2018, the national construction industry's total output exceeded RMB23.5 trillion, grew by 9.9% compared to the previous year, according to the report of the National Bureau of Statistics of China, which has still maintained a favorable growth trend.

During 2018, the reform of China's construction industry keeps advancing. The regulatory authorities have continued the previous policy direction for the construction industry, and have set multiple policies in strengthening the construction market supervision, optimizing the business environment, promoting the integrity system, simplifying enterprise qualification management and improving the market access system.

Overall, during 2018, the construction industry is growing stably and in a relatively fast pace; and there was no substantial change in the big picture of the building decoration industry, which the situation remains as "Big industry, Small enterprises". Hence, the leading enterprises in the building decoration industry still have large growing potential and opportunity in the market.

BUSINESS REVIEW

The Group provides professional and comprehensive building decoration services for public and private clients (including state-owned enterprises, government departments and institutions, listed companies, foreign-funded enterprises, property developers and property management companies), mainly covering four areas (i) building decoration works; (ii) electrical and mechanical installation works; (iii) curtain wall engineering works; and (iv) fire safety engineering works. The Group's projects cover a wide range of buildings and properties, including commercial buildings, office buildings, industrial buildings, residential buildings, public buildings and infrastructure as well as hotels.

With over 20 years of operating history, the Group has gained substantial experience and established a solid reputation in the building decoration industry in the PRC, with a broad range of the top qualifications and licences in the building decoration industry.

Looking back during 2018, the Group showed satisfactory performances in brand-building and business commencement:

1. Three representative boutique projects of the Group, namely "Construction and curtain wall engineering of Jindi Century Building (金迪世紀大廈建築幕牆工程)", "Interior design and decoration of Radisson Hotel in Lianfa Peninsula (聯發半島麗笙酒店室內精裝修工程)" and "Building and decoration of Ningxia International Conference Center (the second) 寧夏國際會議中心內裝修工程項目(二標段)", were awarded National Construction Engineering and Decoration Award (中國建築工程裝飾獎)";

2. The Group have obtained three new qualifications: Grade III General Contractor of Municipal Engineering (市政公用工程施工總承包三級), Grade III General Contractor of Construction Engineering (建築工程施工總承包三級) and Grade I Contractor of Cleaning project (潔淨工程壹級);

3. The Group have been awarded two grand prizes including "Self-dependent, Innovative and Leading Enterprise (自主創新領航企業)" and "Fulfilling Social Responsibility — Outstanding Enterprise (履行社會責任傑出企業)", as well as being rated "The 16th Shenzhen Enterprise Innovation Record (第十六屆深圳企業創新紀錄)" in numerous aspects.

As of 31 December 2018, there are 22 branch offices and representative offices in 18 provinces, autonomous regions and municipalities.

Throughout 2018, the Group has signed 200 new contracts with a value of more than RMB1 million each, 43 contracts with a value of more than RMB10 million each, and 3 contracts with a value of more than RMB50 million each.

Throughout 2018, the Group carried out 471 projects (each with a contract value of more than RMB1 million). The total contract value is approximately RMB4.7 billion, including 107 projects with a contract value of more than RMB10 million each and 13 projects with a contract value of more than RMB50 million each.

Since 2013, the Company has been awarded the certificate of "High and New-Technology Enterprise (高新技術企業)" by relevant PRC governmental authorities and has been enjoying a preferential EIT rate of 15%. The "High and New-Technology Enterprise" Certificate of the Company has been renewed on 15 November 2016, which is valid for three years.

FINANCIAL REVIEW

Revenue and gross profit margin

The Group's revenue increased by 9.4% from approximately RMB1,672.8 million for the year ended 31 December 2017 to approximately RMB1,830.8 million for the year ended 31 December 2018. The increase in the revenue was primarily due to the increase of the number of higher-valued projects (each with a contract value of more than RMB10 million) carried out by the Group, from 94 for 2017 to 107 for 2018.

The Group's gross profit increased by 12.9% from approximately RMB224.2 million for the year ended 31 December 2017 to approximately RMB253.1 million for the year ended 31 December 2018. The gross profit margin increased to 13.8% for the year ended 31 December 2018 from 13.4% for the year ended 31 December 2017. Such increase was mainly due to the generally higher gross profit margin from contracts commenced during 2018.

Other income — net

Other income mainly represented income from government grants and subsidies.

Other income — net increased by 20.4% from approximately RMB5.4 million for the year ended 31 December 2017 to approximately RMB6.5 million for the year ended 31 December 2018 primarily because of increase in the government grants.

Administrative expenses

The administrative expenses increased by 13.6% from approximately RMB36.1 million for the year ended 31 December 2017 to approximately RMB41.0 million for the year ended 31 December 2018 mainly because of increase in the staff costs and the depreciation and amortization expenses.

Finance costs — net

Finance cost increased by 26.8% from approximately RMB29.8 million for the year ended 31 December 2017 to approximately RMB37.8 million for the year ended 31 December 2018 because of a significant increase in interest expenses along with the increase in the average loan balance to meet the capital requirements of the Group for development in business during the year.

Income tax expense

Income tax expense decreased by 14.9% from approximately RMB21.5 million for the year ended 31 December 2017 to approximately RMB18.3 million for the year ended 31 December 2018 primarily because during 2018 the Company prepared and submitted related documents for the application of additional deduction on research and development expenses to in-charge tax authority according to EIT Law and utilised such tax deduction on its yearly income tax settlement.

The applicable income tax rate of the Company maintained at 15% for the year ended 31 December 2017 and the year ended 31 December 2018.

Profit for the year

Profit for the year increased by 12.9% from approximately RMB115.8 million for the year ended 31 December 2017 to approximately RMB130.7 million for the year ended 31 December 2018. The net profit margin remained stable at 7.1% and 6.9% for the years ended 31 December 2018 and 2017, respectively.

LIQUIDITY AND CAPITAL RESOURCES

As of 31 December 2018 and 2017, the Group had cash and cash equivalents of approximately RMB180.1 million and approximately RMB281.8 million, respectively. The decrease in the Group's cash and cash equivalents was primarily due to the repayments of bank borrowings during the year ended 31 December 2018.

The Group monitors the cash flows and cash balance on a regular basis and seeks to maintain an optimal level of liquidity that can meet the working capital needs while supporting a healthy level of business development and its various growth strategies. In the future, the Group intends to finance its operations through cash generated from operating activities and interest-bearing bank borrowings. Other than normal bank borrowings that the Group obtained from commercial banks and potential debt financing plans, the Group does not expect to have any material external debt financing plan in the near future.

1. Trade receivables and contract assets

The trade receivables increased from approximately RMB357.2 million as of 31 December 2017 to approximately RMB589.1 million as of 31 December 2018. The trade receivables are the amounts due from customers in the ordinary course of business. Such increase was mainly due to (1) a series of large projects commenced in previous years had reached the final settlement stage this year; (2) the new projects commenced in the second half of 2018 were also under negotiation with client and payment process

The contract assets increased from approximately RMB1,255.3 million as of 31 December 2017 to approximately RMB1,581.8 million as of 31 December 2018 (previously presented as "Amounts due from customers for contract work"; now presented as "Contract assets"). The level of the contract assets at a designated reporting date is mainly affected by the duration between our request of interim progress payment and the endorsement on the project progress report. Such increase was mainly due to the commencement of several projects with higher contract value (each with total contract value of exceeding RMB50 million) for the year ended 31 December 2018.

2. Trade and other payables

Trade and other payables increased from approximately RMB438.5 million as of 31 December 2017 to approximately RMB904.0 million as of 31 December 2018 primarily due to an increase in the trade payables because of the practice that our management has been attempting to negotiate with suppliers for a longer settlement term. In order to better manage our working capital, we generally pay our suppliers after we receive payments from our customers. Therefore, the payables moved in line with the contract assets which increased during 2018.

3. Borrowings

As of 31 December 2018, the Group had borrowings amounting to approximately RMB496.0 million (31 December 2017: approximately RMB721.0 million) which are mainly interest-bearing bank borrowings and repayable within 1 year. As of 31 December 2018, the Group did not have any inter-company borrowings. As of 31 December 2018, bank borrowings were secured by the Group's trade receivables and contract assets of totally RMB400.7 million and guaranteed by certain related parties.

4. Gearing ratio

The gearing ratio was 23% as of 31 December 2018 while the ratio as at 31 December 2017 was 33%. The decrease was mainly attributable to a decrease in bank borrowing as at 31 December 2018.

Gearing ratio represents net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

5. Capital Expenditure

Capital expenditures decreased from approximately RMB11.8 million for the year ended 31 December 2017 to approximately RMB4.8 million for the year ended 31 December 2018 primarily because during 2018 the Group did not make the similar investment in social housing for talents as it did in 2017.

6. Capital Commitments

As of 31 December 2018, the Group had no capital commitment.

7. Contingent Liability

As of 31 December 2018, the Group had no material contingent liabilities.

8. Fluctuation of RMB Exchange Rate and Foreign Exchange Risks

The majority of the Group's business and all bank borrowings are denominated and accounted for in RMB. Therefore, the Group does not have significant exposure to foreign exchange fluctuation. The Board does not expect that the fluctuation of RMB exchange rate and other foreign exchange fluctuations will have material impact on the business operations or financial results of the Group.

The Group currently has no hedging policy with respect to the foreign exchange risks. Therefore, the Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies.

USE OF PROCEEDS

The Company's H shares were listed and commenced trading on the Stock Exchange on 25 November 2016, with net proceeds of approximately HK$228.1 million (amounted to approximately RMB203.4 million) after deducting relevant listing expenses. As of the date of this announcement, the Company does not anticipate any change to its plan on the use of proceeds as stated in the Prospectus dated 15 November 2016.

As of 31 December 2018, approximately RMB182.25 million have been utilized and the unutilized net proceeds of approximately RMB21.15 million from the Global Offering are deposited in the bank accounts.

The break down for the utilized net proceeds:

1. approximately RMB68.78 million was used to establish an internal online supply chain management platform;

2. approximately RMB19.50 million was used to improve and upgrade the Group's internal integrated IT infrastructure for business management;

3. approximately RMB20.46 million was used to strengthen the Group's research and development capabilities and establish a research and development laboratory;

4. approximately RMB40.13 million was used to further expand the geographical coverage of the Group's services and optimise and the Group's branch network;

5. approximately RMB13.47 million was used to upgrade the Group's design system and recruit more design professionals;

6. approximately RMB19.91 million was used for supplementing working capital.

Placing Agreement under General Mandate

On 15 November 2018, in order to optimise and diversify the Shareholder base of the Company and strengthen the financial position of the Company for future investment, the Company entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a best effort basis, 10,000,000 new H shares of the Company of RMB1.00 each to not less than six and not more than ten independent placees, being professional, institutional or other investors,who and whose ultimate beneficial owners, are independent third parties who are not connected person(s) of the Company and are independent of and not connected with the Company or Directors, chief executive, or substantial Shareholders of the Company or any of its subsidiaries or their respective associates at a price of HK$7.00 per H share pursuant to the general mandate granted to the Directors by the Shareholders at the annual general meeting held on 8 June 2018. The closing price at the date of placing agreement of the Company's Shares was HK$7.48 per H share and the net price per Placing Share is approximately HK$6.77.

All the conditions set out in the Company's new H Shares placing agreement have been fulfilled and the placing was completed on 30 November 2018, with net proceeds of approximately HK$67.7 million (amounted to approximately RMB60.1 million) after deducting relevant issuance expenses. As of the date of this annual report, the Company does not anticipate any change to its plan on the use of proceeds as stated in the announcement dated 15 November 2018. As at 31 December 2018, the Company has not utilized any of the net proceeds and deposited the entire amount of the net proceeds in bank accounts. Details of the placing are set out in the announcements of the Company published on 15 November 2018 and 30 November 2018.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material investment and there was no acquisition and disposal of subsidiaries during the year.

FUTURE DEVELOPMENT PROSPECT AND STRATEGIES

As a comprehensive green decoration service provider with a global leading position, in 2019, the Group will focus on its core business, especially in the segment areas and regional markets, and integrate them to enhance our performance. As at the date of this annual report, there are currently no concrete plans to acquire any material investment or capital assets other than in the Group's ordinary course of business. The Group believes that the following strategies will help further enhance its competitiveness and operating results:

1. Heed to segment market and focus on regional development

The Group will focus on the support and development of the business in medical care and hotel in the segment areas, continue to reinforce and highlight our advantage in these segment areas. We also focus on the development in Great Bay Area, establishing Great Bay Area business department, and exploring the chance in winning the tender bids which align with our corporate development strategies in order to layout ahead of the competitions. We will keep an eye on the development of Hainan free trade zone and enter the market with a diligent plan at a good timing.

2. Optimize the project management process and promote the management quality and efficiency

The Group will keep on optimizing the project management process and improving the efficiency of the project management through rebuilding and renovating the process. We will maximize the utilization of the Group's collective purchasing platform and to enhance the economy of scale, in order to ensure the premium quality of our projects.

3 Strengthen the talent reserve

The Group will strengthen the corporate culture and improve the cohesive force, communications skills, coordination skills, problem-solving skills of the team, and thrive to build a talent team branded as market-developing, professional, enterprising, transformational and comprehensive in management.

4. Deepen the comprehensive governance of the Group

The Group focuses on maintaining and improving the qualification, improving the research and development skills, maintaining and upgrading the brand value, integrated development in corporate finance and managing with standardized approach in refined segments, so as to promote our competitiveness and influential power.

The Directors hereby presents the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is building decoration service that mainly covers four areas, namely (i) building decoration works; (ii) electrical and mechanical installation works; (iii) curtain wall engineering works; and (iv) fire safety engineering works. There were no significant changes in the nature of the Group's principal activities during the year.

The Group's performance by segments is set out in note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2018 and the financial information of the Group as of 31 December 2018 are set out in the audited financial statements of this report.

BUSINESS AND FINANCIAL REVIEW

The business and financial review of the Group for the year ended 31 December 2018 and a discussion on the Group's future development are set out in the section head "Management Discussion and Analysis" on pages 10 to 14 of this annual report.

KEY RISKS AND UNCERTAINTIES

Business and Market

Demand for services and products of the Group is cyclical in nature and directly correlates with the level of real estate development and construction activities in China and in regions and provinces in which the Group operate. The real estate industry and the construction industry are sensitive to economic fluctuations and market uncertainty, and are closely controlled and monitored by the PRC Government through policymaking. The PRC financial market has experienced significant fluctuations in recent months. They cannot assure Group that such fluctuations will not negatively affect the overall economic condition in China or the real estate or construction industry in China. Revenue from the real estate industry and the construction industry may be adversely affected if the growth of the PRC economy slows down or enters into recession, or if fixed capital investment is reduced, including any reduction in infrastructure investment by the PRC Government. The ongoing projects, in which the Group have invested significant resources and capital, may be put on hold or stopped if economic conditions deteriorate, and the Group may be unable to collect payments and recover our costs.

In addition, the Group are susceptible to the adverse changes in national or local policies related to the PRC real estate industry and construction industry, including those that control the supply of land for property development, project financing, foreign investment and taxation. During the year, the PRC Government implemented various regulations and policies aimed to cool the real estate market and the inflation of property prices. Various property price control policies have been implemented in recent years, including limitations on the purchase of property outside the city of registered residence, restrictions on real estate loans and higher interest rates for second-hand property transactions, among others. Most recently, Fed (the Federal Reserve Board) has raised the key interest rate in USA and the Group believes that Chinese government will take the similar measures to deleverage. These policies may affect the level of activity in the PRC real estate industry, and in turn affect the number of construction projects available to the Group prices. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Financial

The major financial risks faced by the Group are interest risk, credit risk and liquidity risk. Management of the Group meets regularly to analyse and formulate measures to manage the Group's exposure to these risks. The risk management objectives and policies of the financial risk are set out in the note 3 to the consolidated financial statement.

Management of the Group will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Tax Relief and Exemption

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding the Company's securities.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2018, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

EVENTS AFTER THE REPORTING PERIOD

Change in scope of business of the Company

On 19 March 2019, the change in scope of business of the Company was approved by the Shareholders of the Company at the extraordinary general meeting. The scope of business was expanded with the addition of "Grade III General Contractor of Municipal Engineering" and "Grade III General Contractor of Construction Engineering" which has also been explained at the "Business Review" section of this announcement. For details, please refer to the circular of the Company dated 31 January 2019.

Amendments to the Articles of Association

On 19 March 2019, the amendments to the Articles of Association of the Company was approved by the shareholders of the Company at the extraordinary general meeting, on matters in relation to, among others, "Objectives and scope of business", "Shares and registered capital" and "The Board of directors". For details, please refer to the circular of the Company dated 31 January 2019.

ENVIRONMENTAL PROTECTION

The environmental protection policy adopted by the Group is set out in the section head "Environmental, Social and Governance Report" on page 35 of this annual report.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Directors and management team, comprising experienced professionals that possess extensive technical and industry experience, has a proven record of successfully operating and expanding the business. Therefore, the Group ensures the remuneration package of Directors and management are reasonable and competitive in the market and also continue to improve and regularly review and update its policies on remuneration and benefits.

Through the efforts of sales and marketing team, the Group have established solid relationships with many of our long-term customers. During the year, most of our major customers were located in Guangdong. We continue to maintain such relationships by conducting periodic visits to understand the construction needs of our customers and learn about their new projects.

The Group is in good relationship with its suppliers. The procurement department maintains a list of qualified suppliers, from which project management department procures on an as-needed basis. The qualified suppliers are selected based on various criteria, including price, quality, record of timely delivery, location, supply capacity, credit terms, and customer service. The procurement department is responsible to review and update the list of qualified suppliers annually. The Group has established long-term relationships with these suppliers.

SHARE CAPITAL

During the year ended 31 December 2018, 10,000,000 H shares were issued upon placing under general mandate. Details of the abovementioned placing can be found under the paragraph headed "Placing Agreement under General Mandate" in the Management Discussion and Analysis section.

The share capital structure of the Company as at 31 December 2018 is as follows:

Class of Shares	Number of shares	Approximate percentage of the total issued share capital
Domestic Shares	158,287,000	71.6%
H Shares in issue	62,763,000	28.4%
Total	221,050,000	100%

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2018.

DIVIDEND POLICY

The Company has established its dividend policy. When the Company records a profit and after taking into account other relevant factors, we would pay dividend to our shareholders according to the articles of association of the Company and applicable laws. However, such dividend is non-guaranteed. Our decision on dividend distribution depends on the financial situation of our Company, future market prospects, company funding needs and any other relevant factors which the Company thinks fit.

The remaining net profits after dividend payout (if any) would be used for the development of the Company.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from Saturday, 11 May 2019 to Tuesday, 11 June 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the aforesaid annual general meeting, all transfer of shares of the Company, companied by the relevant share certificates, must be lodged with the Company's H share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4：30 p.m. on Friday, 10 May 2019, being the business day before the first day of closure of the Register of Members.

PUBLIC FLOAT

As at the Latest Practicable Date, based on the available public information of the Company, so far as the Directors are aware of, the Company has met the requirements of public float under the Rule 8.08 of the Listing Rules.

PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2018, the Group acquired additional property and equipment of approximately RMB1.0 million. Details of the movements are set out in note 15 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

According to the laws of the PRC and the Articles of Association, there are no provisions on the pre-emptive rights to offer new Shares by the Company to its existing Shareholders on a pro rata basis.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2018, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company.

RESERVES

Details of the movements in the reserves of the Group during the year ended 31 December 2018 are set out in the section headed "Consolidated Statement of Changes in Equity" on page 57 of this annual report.

DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company, and of which details of reserves available for distribution to Shareholders are set out in note 29 to the consolidated financial statements. As at 31 December 2018, reserves available for distribution of the Company amounted to RMB570.0 million (2017: RMB459.2 million).

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of revenue from the Group's largest and five largest customers for the year ended 31 December 2018 represented approximately 7.7% (31 December 2017: 17.2%) and 18.0% (31 December 2017: 30.6%), respectively, of the Group's total revenue.

The aggregate amount of purchases from the Group's largest and five largest suppliers for the year ended 31 December 2018 represented approximately 15.7% (31 December 2017: 18.2%) and 36.8% (31 December 2017: 40.5%), respectively, of the Group's total purchases.

To the best of the Directors' knowledge, none of the Directors or their respective close associates, and none of the existing Shareholders who owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers and suppliers.

DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive Directors

Mr. YE Yujing (葉玉敬先生)
Mr. LIU Yilun (劉奕倫先生)
Ms. YE Xiujin (葉秀近女士)
Mr. YE Guofeng (葉國鋒先生)
Mr. YE Niangting (葉娘汀先生)

Non-executive Director

Ms. LI Yuanfei (黎媛菲女士) *(Appointed on 19 March 2019)*
Mr. TIAN Wen (田文先生) *(Resigned on 19 March 2019)*

Independent Non-executive Directors

Mr. CHEUNG Wai Yeung Michael (張威揚先生) *(Appointed on 20 August 2018)*
Mr. WANG Zhaowen (王肇文先生)
Mr. LIN Zhiyang (林志揚先生)
Mr. TANG Wai Man Raymond (鄧偉文先生) *(Resigned on 20 August 2018)*

BOARD OF SUPERVISORS

Mr. ZU Li (祖力先生)
Mr. YE Weizhou (葉偉周先生) *(Appointed on 8 June 2018)*
Mr. TIAN Wen (田文先生) *(Appointed on 19 March 2019)*
Mr. WU Hanguang (吳漢光先生) *(Retired on 8 June 2018)*
Mr. YE Xian (葉縣先生) *(Resigned on 19 March 2019)*

The biographical details of the Directors and supervisors are disclosed the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 6 to 9 in this annual report.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND THE CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2018, the interests or short positions of the Directors, Supervisors and the chief executive in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**")) which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") to be notified to the Company and the Hong Kong Stock Exchange are as follows:

Director/Supervisor	Nature of interest	Number of shares of the Company	Approximate percentage of shareholdings in the relevant class of Shares of the Company(1)	Approximate percentage of shareholdings in the total share capital of the Company(2)
YE Yujing (葉玉敬) *(Note 3)*	Beneficial Owner	67,694,000	42.77%	30.62%
	Interest of spouse	15,504,000	9.79%	7.01%
YE Xiujin (葉秀近) *(Note 4)*	Beneficial Owner	15,504,000	9.79%	7.01%
	Interest of spouse	67,694,000	42.77%	30.62%
YE Guofeng (葉國鋒) *(Note 5)*	Interest in a controlled corporation	6,075,000	3.84%	2.75%
YE Xian (葉縣) *(Note 6)*	Beneficial Owner	10,336,000	6.53%	4.68%

Notes:

1. The calculation is based on the percentage of shareholdings in the Domestic Shares.

2. The calculation is based on the total number of 221,050,000 Shares in issue after the placing of 10,000,000 new H shares.

3. Mr. YE Yujing is the husband of Ms. YE Xiujin. Under the SFO, Mr. YE Yujing will be deemed to be interested in the same number of Shares in which Ms. YE Xiujin is interested.

4. Ms. YE Xiujin is the wife of Mr. YE Yujing. Under the SFO, Ms. YE Xiujin will be deemed to be interested in the same number of Shares in which Mr. YE Yujing is interested.

5. ShenZhen Gong Xiang Li Investment Entity (Limited Partnership) (深圳市共享利投資企業(有限合夥)) ("**Shenzhen Gong Xiang Li**"), a limited partnership entity established under the PRC laws, is owned as to 88.15% by Mr. YE Guofeng, our Executive Director. In light of the above, Mr. Ye Guofeng is deemed to be interested in all the Shares held by Shenzhen Gong Xiang LI.

6. The Resignation of Mr.YE Xian as the Supervisor of the Company became effective on 19 March 2019.

7. Ms. LI Yuanfei was appointed as our Non-executive Director with effect from 19 March 2019. Ms. LI Yuanfei is the wife of Mr. XIONG Mingwang (熊明旺). As at the date of this annual report, under the SFO, Ms. LI Yuanfei will be deemed to be interested in 10,000,000 Shares in which Mr. XIONG Mingwang is interested.

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, so far as the Directors, Supervisors and the chief executive of the Company are aware of, as indicated on the register of interests and/or short positions required to be maintained pursuant to Section 336 of the SFO, the substantial Shareholders and other persons (other than Directors, Supervisors and the chief executive of the Company) had the following interests and/or short positions in the Shares or underlying Shares of the Company:

Name of Shareholders	Class of Shares held after the Global Offering	Nature of interest	Number of shares of the Company	Approximate percentage of shareholdings in the relevant class of Shares of the Company[(1)]	Approximate percentage of shareholdings in the total share capital of the Company[(2)]
South China Sea Selected (Tianjin) Equity Investment Fund Limited Partnership Corporation (Limited Partnership) (南海成長精選(天津)股權投資基金合夥企業(有限合夥)) (Note 3)	Domestic Shares	Beneficial Owner	17,000,000	10.74%	7.69%
Shenzhen Co-Win Asset Management Holding Company Limited (深圳市同創偉業資產管理股份有限公司) (Note 3)	Domestic Shares	Interest in a controlled corporation	17,000,000	10.74%	7.69%
Shenzhen Co-Win Venture Capital Investments Limited (深圳市同創偉業創業投資有限公司) (Note 3)	Domestic Shares	Interest in a controlled corporation	17,000,000	10.74%	7.69%
Shenzhen Co-Win Jinxiu Asset Management Limited (深圳同創錦繡資產管理有限公司) (Note 3)	Domestic Shares	Interest in a controlled corporation	17,000,000	10.74%	7.69%
Zheng Wei He (鄭偉鶴) (Note 3)	Domestic Shares	Interest in a controlled corporation	17,000,000	10.74%	7.69%
Huang Li (黃荔) (Note 3)	Domestic Shares	Interest in a controlled corporation	17,000,000	10.74%	7.69%
Ding Bao Yu (丁寶玉) (Note 3)	Domestic Shares	Interest in a controlled corporation	17,000,000	10.74%	7.69%
YE Bingquan (葉炳權)	Domestic Shares	Beneficial Owner	10,336,000	6.53%	4.68%
Ningbo Meishan Bonded Area Xingwang Yinghua Equity Investment Center (Limited Partnership) (寧波梅山保税港區興旺贏華股權投資中心(有限合夥)) (Note 4)	Domestic Shares	Beneficial Owner	10,000,000	6.32%	4.52%
Shenzhen Qianhai Xingwang Investment Management Co., Ltd (深圳前海興旺投資管理有限公司) (Note 4)	Domestic Shares	Interest in a controlled corporation	10,000,000	6.32%	4.52%
Shenzhen Qianhai Xingwang Investment Center (Limited Partnership) 深圳前海興旺投資中心(有限合夥) (Note 4)	Domestic Shares	Interest in a controlled corporation	10,000,000	6.32%	4.52%
Xiong Mingwang (熊明旺) (Note 4)	Domestic Shares	Interest in a controlled corporation	10,000,000	6.32%	4.52%
International South China Investment Fund Limited Partnership (Note 5)	H Shares	Beneficial Owner	16,009,000	25.51%	7.24%
International South China Investment Fund Limited (Note 5)	H Shares	Interest in a controlled corporation	16,009,000	25.51%	7.24%
LI Jianping (李建平) (Note 5)	H Shares	Interest in a controlled corporation	16,009,000	25.51%	7.24%
CHEN Junting* (陳俊廷)	H Shares	Beneficial Owner	6,360,000	10.13%	2.88%

* *for identification purpose only*

Notes:

1. The calculation is based on the percentage of shareholdings in the Domestic Shares and H Shares (as the case may be).

2. The calculation is based on the total number of 221,050,000 Shares in issue after the issuance of 10,000,000 new H shares on 30 November 2018.

3. South China Sea Selected (Tianjin) Equity Investment Fund Limited Partnership Corporation (Limited Partnership) ("**South China Sea LP**"), a limited partnership entity established under PRC laws on 13 April 2011, is controlled by four general partners who were as of 31 December 2018, (i) Shenzhen Co-Win Jinxiu Asset Management Limited ("**Shenzhen Co-Win Jinxiu Asset**"), (ii) Zheng Wei He; (iii) Huang Li; and (iv) Ding Bao Yu. Shenzhen Co-Win Jinxiu Asset, a limited liability company established under PRC laws on 24 December 2014, is a wholly-owned subsidiary of Shenzhen Co-Win Asset Management Holding Company Limited ("**Shenzhen Co-Win Asset**"). Shenzhen Co-Win Asset, a company limited by shares established under PRC laws on 27 December 2010 is owned as to 35.01% by Shenzhen Co-Win Venture Capital Investments Limited ("**Shenzhen Co-Win Venture Capital**"), 15.02% by Zheng Wei He, 14.94%by Huang Li, 10.45% by Shenzhen Co-Win Victory Investment Limited Partnership Corporation (Limited Partnership) (深圳同創創贏投資合夥企業(有限合夥)) ("**Shenzhen Co-Win Victory LP**"), 7.13% by Shenzhen Co-Win South China Asset Management Company Limited (深圳市同創偉業南海資產管理有限公司) which is a limited liability company established under PRC laws on 5 February 2013 and is wholly-owned by Shenzhen Co-Win Venture Capital,3.38% by Ding Bao Yu, 1.60% by Xue Xiaoqing, 1.07% by Zhang Wenjun, 1.07% by Duan Yao, 0.89% by Tang Zhongcheng (唐忠誠) as of 31 December 2018 , with the remaining 9.44% owned by other shareholders. Shenzhen Co-Win Venture Capital, a limited liability company established under PRC laws on 26 June 2000, is owned as to 45% by Zheng Wei He and 55% by Huang Li. In light of the above, Shenzhen Co-Win Jinxiu Asset, Shenzhen Co-Win Asset, Shenzhen Co-Win Venture Capital, Zheng Wei He, Huang Li and Ding Bao Yu are deemed to be interested in all Shares held by South China Sea LP under the SFO.

4. Ningbo Meishan Bonded Area Xingwang Yinghua Equity Investment Center (Limited Partnership) ("**Ningbo Xingwang Yinghua**"), a limited partnership entity established under PRC law on 6 March 2017, is controlled by the general partner, Shenzhen Qianhai Xingwang Investment Management Co., Ltd ("**Shenzhen Qianhai Xingwang Investment Management**") as of 31 December 2018. As of 31 December 2018, Ningbo Xingwang Yinghua is owned as to 31.60%, 15.80%, 9.48%, 7.90%, 7.90%, 7.90%, 6.48%, 6.32%, 4.74%, 1.58% and 0.32%, respectively by Bai Xinliang, by Cui Hegen, by Zhang Yao, by Gu Jianfang, by Zhou Ying, by Wu Mohai, by Liu Jun, by Gu Bin, by Yang Mingjiong, by Liu Qian and by Shenzhen Qianhai Xingwang Investment Management, which is a limited liability company established under PRC law on 15 June 2015 is owned as to 99% by Shenzhen Qianhai Xingwang Investment Center (Limited Partnership) ("**Shenzhen Qianhai Xingwang Investment Center**") and 1% by Xiong Mingwang. Shenzhen Qianhai Xingwang Investment Center, a limited partnership entity established under PRC law on 1 February 2016 is owned as to 99% by Xiong Mingwang and 1% by Liu Jun.

   In light of the above, Shenzhen Qianhai Xingwang Investment Management, Shenzhen Qianhai Xingwang Investment Center and Xiong Mingwang are deemed to be interested in all shares held by Ningbo Xingwang Yinghua under the SFO.

5. Li Jianping acquired the 100% limited partnership interest in International South China Investment Fund Limited Partnership and 100% interest in International South China Investment Fund Limited by a deed of assignment and assumption of Limited Partnership Interest. International South China Investment Fund Limited is the general partner in the limited partnership of International South China Investment Fund Limited Partnership.

PERMITTED INDEMNITY PROVISIONS

At no time during the year ended 31 December 2018, there was or is, any permitted indemnity provision being in force for the benefit of any of the Directors.

CHANGE OF INFORMATION OF DIRECTORS AND SUPERVISORS

As disclosed in the announcement of the Company dated 19 April 2018, Mr. Wu Hanguang retired as the employee representative supervisor on 8 June 2018. Mr. Ye Weizhou was appointed as an employee representative supervisor of the fifth session of the supervisory committee at the Company's staff conference held on 17 April 2018. The term of office of Mr. Ye Weizhou as an employee representative supervisor of the fifth session of the supervisory committee of the Company is for a period commencing from 8 June 2018 to the date of the annual general meeting to be convened in 2021.

As disclosed in the announcement of the Company dated 28 May 2018, Mr. Tang Wai Man Raymond resigned as independent non-executive Director with effective from 20 August 2018. Mr. Cheung Wai Yeung Michael was appointed as an independent non-executive Director at the extraordinary general meeting held on 20 August 2018. Mr. Cheung Wai Yeung Michael entered into a letter of appointment with the Company as an independent non-executive Director of the Company for a term of three years from 20 August 2018. Mr. Cheung Wai Yeung Michael has been appointed as a Chairman of Audit Committee, and a member of Remuneration Committee.

As disclosed in the announcement of the Company dated 28 January 2019, Mr. Tian Wen resigned as non-executive director with effective from 19 March 2019. Ms. Li Yuanfei was appointed as a non-executive Director at the extraordinary general meeting held on 19 March 2018. Ms. Li Yuanfei entered into a letter of appointment with the Company as a non-executive Director of the Company for a term of three years from 19 March 2019.

As disclosed in the announcement of the Company dated 28 January 2019, Mr. Ye Xian resigned as a supervisor of the Company with effective from 19 March 2019. On the same date, Mr. Tian Wen was redesignated as a supervisor of the Company.

Save as disclosed above, there are no other changes to the Directors' and Supervisor's information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S RIGHTS IN THE SUBSCRIPTION OF SHARES AND DEBENTURES

During the year ended 31 December 2018, no right to subscribe the Shares in or debentures of the Company or any of its associated corporations was granted by the Company to any Director, Supervisor or chief executive of the Company or their respective spouses or children aged under 18, and no such rights to subscribe the above Shares or debentures were exercised by them.

SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

The Company has entered into service contracts with all Directors and Supervisors, with the maximum term of three years. No service contract that can be terminated by the Group within one year without paying any compensation (other than the statutory compensation) was entered or is to be entered into between Directors or Supervisors and members of the Group.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, or its parent company was a party and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, the Group entered into transactions with related parties set out in notes 28 to the consolidated financial statements. Some of these related party transactions constituted connected transactions or continuing connected transaction as defined in Chapter 14A of the Listing Rules and the Company have complied with the disclosure requirement thereon.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No contract of significance has been entered into among the Company and the Controlling Shareholders or any of their associates during the year ended 31 December 2018.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

REMUNERATION OF THE DIRECTORS AND SUPERVISORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the Directors and Supervisors of the Company and five highest paid individuals are set out in Note 8 to the consolidated financial statements.

REMUNERATION POLICY

The Group's Directors, Supervisors and senior management receive compensation in the form of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind with reference to those paid by comparable companies, time commitment and the performance of the Company. The Company also reimburses our Directors, Supervisors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to the Company or executing their functions in relation to the operations of the Company. The Group regularly reviews and determines the remuneration and compensation packages (including incentive plans) of the Directors, Supervisors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of our Directors, Supervisors and senior management and the performance of the Company.

DEED OF NON-COMPETITION

To ensure that competition will not exist in the future, Mr. Ye Yujing and Ms. Ye Xiujin as controlling shareholders (the "**Controlling Shareholders**") have entered into deed of non-competition (the "**Deed of Non-Competition**") with the Company to the effect that each of them will not, and will procure their subsidiaries (other than the Company) and their close associate(s) not to, directly or indirectly participate in, or hold any interest or right or otherwise be involved in, the principal business and other businesses.

NON-COMPETITION

The Group entered into the Deed of Non-Competition with the Controlling Shareholders on 10 April 2015 under which the Controlling Shareholders agreed not to, and to procure their subsidiaries and respective close associate(s) (as appropriate) (other than the Group) not to, compete, either directly or indirectly, with the principal business and other businesses, namely the design, survey and consultancy business and civil defense products manufacturing business, and granted to the Group the option for new business opportunities, option for acquisitions and pre-emptive rights.

The Controlling Shareholders have further irrevocably undertaken in the Deed of Non-Competition that, during the term of the Deed of Non-Competition, they (as appropriate) will not, and will also procure their subsidiaries and respective close associate(s) (as appropriate) (other than the Group) not to, alone or with any other entity, in any form, directly or indirectly, engage in, participate in, assist or support a third party to engage in or participate in any business that competes, or is likely to compete, directly or indirectly with the principal business and other businesses. The foregoing restrictions are subject to the fact that the Company may waive certain new business opportunities pursuant to the terms and conditions under the Deed of Non-Competition.

The Company's Independent Non-executive Directors have reviewed the compliance with the Deed of Non-Competition by the Controlling Shareholders and were satisfied that the terms of the Deed of Non-Competition had been duly complied with for the period from 1 January 2018 to the date of the annual report. The measures which the Company has adopted to ensure the compliance with the Deed of Non-Competition include:

(1) The Company has enquired with each of the Controlling Shareholders on whether each of the Controlling Shareholders or any of his/her close associates has engaged in any business which may directly or indirectly compete or may compete with the principal business of the Company, other than being a director or shareholder of the Company;

(2) The Company and the Board have requested the Controlling Shareholders to confirm to the Company regarding the compliance of the terms of the Deed of Non-Competition and the enforcement of undertakings under the Deed of Non-Competition. The Controlling Shareholders confirmed to the Company that they have complied with the terms of the Deed of Non-Competition for the period from 1 January 2018 to the date of the annual report; and

(3) The Company and the Board are not aware of any breach of the Deed of Non-Competition by the Controlling Shareholders for the period from 1 January 2018 to the date of the annual report.

DIRECTORS' COMPETING INTERESTS

Save as disclosed in this report, none of the Controlling Shareholders, Directors and their respective close associates has any interests in any business which directly or indirectly competes or is likely to compete with the principal business and other businesses, which would require disclosure under Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Details of corporate governance practice adopted by the Company are set out in the section of "Corporate Governance Report" of this Annual Report.

AUDITOR

PricewaterhouseCoopers was appointed by the Directors as the auditor of the Company. PricewaterhouseCoopers will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting. The consolidated financial statements for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers.

By order of the Board of Directors
Guangdong Adway Construction (Group) Holdings Company Limited*
Mr. Ye Yujing
Chairman, Executive Director and Chief Executive Officer

Shenzhen, PRC, 28 March 2019

* For identification purpose only

The current session the Board of Supervisors consists of three Supervisors (namely Mr. ZU Li (祖力), Mr. YE Weizhou (葉偉周先生) and Mr. TIAN Wen (田文先生).

WORK OF THE BOARD OF SUPERVISORS

During the year ended 31 December 2018, all members of the Board of Supervisors earnestly safeguarded the interest of the Company and Shareholders as a whole, and prudently and honestly performed their duties in compliance with requirements Law of the PRC, relevant regulations and the Articles of Association; Supervisors attended all the Board meetings held in the year and supervised operating activities and financial condition of the Company as well as the performance of duties of Directors and senior management, thereby promoting the Company's standard operation and healthy development.

The annual meeting of the Supervisory Committee was held on 28 March 2019 to consider the 2018 consolidated financial statements of the Group and the report of Supervisory Committee for 2018 and to receive the report on the 2018 results announcement of the Company.

The Supervisory Committee is of the view that since the Listing Date and up to the date of this report, the operation of the Company has been consistent with the provisions of the Company Law of the PRC, the PRC Securities Law and the Articles of Association; that the decision-making process of the Company has been in compliance with the laws, and the Company has established a relatively comprehensible internal control system; and that the Directors and senior management have not violated any law, regulation or the Articles of Association, nor have they acted in a way which is prejudicial to the interests of the Company.

The Supervisory Committee agreed with the audit opinion on the 2018 consolidated financial statements of the Group, and that the consolidated financial statements of the Group have given a true and fair view of the consolidated financial position and the consolidated financial performance of the Group.

The Supervisory Committee considered that the Board earnestly implemented the resolutions approved by the general meetings.

In 2019, the Supervisory Committee will continue to carry out its fiduciary duties to implement effective supervision on the Company, its Directors and senior management in accordance with the relevant provisions of the Company Law of the PRC, the Articles of Association and the Listing Rules; and pay close attention to the operation and management status of the Company as well as any significant development of the Company, so as to facilitate the profit growth of the Company and to dutifully protect the interest of all Shareholders of the Company.

On Behalf of the Supervisory Committee
Mr. ZU Li
Chairman

Shenzhen, PRC, 28 March 2019

The Company is committed to maintain high standards of corporate governance and protect the interests of its Shareholders in an open manner.

The Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. The Board has adopted the code provisions (the "**Code Provisions**") of the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Listing Rules. Throughout the period since the Listing Date to the date of this annual report, the Company has fully complied with the Code Provisions, except for the following deviations.

Pursuant to code provision A.2.1 of the Corporate Governance Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, the Group does not have a separate chairman and general manager (which is equivalent to chief executive officer) and Mr. Ye Yujing currently performs these two roles. Our Board believes that vesting the roles of both chairman and general manager in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. Our Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. Our Board will continue to review and consider splitting the roles of chairman of our Board and general manager of our Company at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

Save as disclosed above, our Company expects to comply with the Corporate Governance Code set out in Appendix 14 to the Listing Rules. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year.

BOARD OF DIRECTORS

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its Shareholders. The Board has established four Board committees, being the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), the nomination committee (the "**Nomination Committee**") and strategy committee (the "**Strategy Committee**") (each a "**Board Committee**" and collectively the "**Board Committees**"), to oversee different areas of the Company's affairs. As of the date of this annual report, the composition of the Board is as follows:

Executive Directors:	Mr. YE Yujing (葉玉敬先生) Mr. LIU Yilun (劉奕倫先生) Ms. YE Xiujin (葉秀近女士) Mr. YE Guofeng (葉國鋒先生) Mr. YE Niangting (葉娘汀先生)
Non-executive Director:	Ms. LI Yuanfei (黎媛菲女士)
Independent Non-executive Directors:	Mr. CHEUNG Wai Yeung Michael (張威揚先生) Mr. WANG Zhaowen (王肇文先生) Mr. LIN Zhiyang (林志揚先生)

Their biographical details and (where applicable) their family relationships are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 6 to 9 in the annual report. A list of the Directors identifying their roles and functions and whether they are independent non-executive Directors are available on the Company's website.

There is no financial, business or other material/relevant relationships among members of the Board.

The functions and duties of the Board include but are not limited to: convening Shareholders' general meetings and reporting the Board's work at the Shareholders' general meetings; implementing the resolutions passed at the Shareholders' general meetings; determining our business plans and investment plans; preparing annual budget proposals and final accounts proposals; preparing plans for profit distribution and recovery of losses; preparing plans for the increase or decrease in registered capital; and exercising other power, functions and duties as conferred by the Articles of Association. Each of our Directors has entered into a service contract with the Company.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Company, and the training and continuous professional development of Directors and senior management. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

According to Code A.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its directors. The Company has already bought the relevant insurance to cover the liability insurance for the Directors for the year of 2018 and renewed the insurance on 13 November 2018 to cover the period from 14 November 2018 to 13 November 2019.

Directors' Continuous Training and Professional Development

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Company. Every newly appointed Director receives an induction to ensure that he/she has a proper understanding of the business and operations of the Company and that he/she is fully aware of his duties and responsibilities as a director under applicable rules and requirements.

On 8 June 2018, the Company, together with its legal advisers, organized training sessions to each of the Directors in relation to continuous responsibilities of Hong Kong listed company and its directors before and after listing. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

	Types of training	
Name of Directors	**Attending in-house training organized by professional organization**	**Reading materials updating on new rules and regulations**
Executive Directors		
Mr. YE Yujing (葉玉敬先生)	√	√
Mr. LIU Yilun (劉奕倫先生)	√	√
Ms. YE Xiujin (葉秀近女士)	√	√
Mr. YE Guofeng (葉國鋒先生)	√	√
Mr. YE Niangting (葉娘汀先生)	√	√
Non-executive Director		
Mr. TIAN Wen (田文先生)	√	√
Independent Non-executive Directors		
Mr. CHEUNG Wai Yeung Michael (張威揚先生)	√	√
Mr. WANG Zhaowen (王肇文先生)	√	√
Mr. LIN Zhiyang (林志揚先生)	√	√

Independence of Independent Non-Executive Directors

The role of the independent non-executive Director is to provide independent and objective opinions to the Board, giving adequate control and balances for the Company to protect the overall interests of the Shareholders and the Company.

They serve actively on the Board and Board Committees to provide their independent and objective views. In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board. One of the independent non-executive Directors has the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive director has submitted annual confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all of the independent non-executive Directors are independent.

Board Committees

The Board is supported by a number of committees, including the Audit Committee, Nomination Committee, Remuneration Committee and Strategy Committee. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference of the Audit Committee, Nomination Committee, Remuneration Committee and Strategy Committee are respectively available on the Company's website.

All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

Audit Committee

The Company has established an audit committee on 21 August 2015 with its written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board.

Our audit committee consists of three members, being Mr. CHEUNG Wai Yeung Michael, Mr. WANG Zhaowen and Mr. LIN Zhiyang. Mr. CHEUNG Wai Yeung Michael currently serves as the chairman of our audit committee.

Throughout the year 2018, the meetings of the Audit Committee were held on 23 March 2018, 27 August 2018 and 15 October 2018. All committee members attended the said meetings during their present term of office.

Pursuant to the meeting of the Audit Committee on 28 March 2019, the Audit Committee has reviewed, among other things, the consolidated financial statements of the Group for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group, report prepared by the external auditor covering major findings in the course of the audit, the risk management and internal control systems and the overall effectiveness of the Company's internal audit function and the adequacy of resources, qualifications and experience of the staff and the accounting and financial reporting matters, and selection and appointment of the external auditor.

Remuneration Committee

The Company has established a Remuneration Committee on 21 August 2015 with its written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to evaluate the performance and make recommendations on the remuneration of Directors and our senior management and to recommend members of the Board.

Our Remuneration Committee consists of three members, being Mr. WANG Zhaowen, Mr. YE Guofeng and Mr. CHEUNG Wai Yeung Michael. Mr. WANG Zhaowen currently serves as the chairman of our Remuneration Committee.

Pursuant to the meetings of the Remuneration Committee on 23 March 2018 of which all members attended during their present term of office, the Remuneration Committee has reviewed the remuneration policy and structure relating to the Directors and senior management of the Company.

Remuneration of Directors, Supervisors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of Directors, Supervisors and senior management of the Group. Details of the remuneration of each of the Directors and Supervisors for the year ended 31 December 2018 are set out in note 8 to the consolidated financial statements.

The biographies of the senior management are disclosed in the section headed "Directors, Supervisors and Senior Management" in this annual report. The remuneration by band of the senior management for the year ended 31 December 2018 is as follows:

Remuneration band (RMB)	Number of individuals
0–1,000,000	4

Note: The 4 individuals include Mr. LIU Yilun, Mr. YE Guofeng, Mr. YE Niangting, and Ms. KOU Yue as a member of senior management.

Nomination Committee

The Company has established a Nomination Committee on 21 August 2015 with its written terms of reference in compliance with paragraph A.5 of the Corporate Government Code set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management.

Our Nomination Committee consists of three members, being Mr. LIN Zhiyang, Mr. YE Yujing and Mr. WANG Zhaowen. Mr. LIN Zhiyang currently serves as the chairman of our Nomination Committee.

Pursuant to the meetings of the Nomination Committee on 23 March 2018 of which all members attended during their present term of office, the Nomination Committee has reviewed the policy for the nomination of Directors the structure, size and composition of the Board and assessed independence of the independent non-executive Directors.

To enhance the quality of the performance of the Board and to achieve diversity on the Board, the Board adopted its Board Diversity Policy, pursuant to which (i) all Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board;and (ii) selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. If it involves the appointment of an independent non-executive director of the Board, the nomination committee shall also consider the perspectives, skills and experience that the person can bring to the Board, and how the person would contribute to the diversity of the Board. The Company shall take into account its own business model and specific needs, and disclose the rationale for the factors it uses for this purpose. The ultimate decision be based on merit and contribution that the selected candidates will bring to the Board. For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

(1) at least one-third of the members of the Board shall be independent non-executive directors;

(2) at least one of the members of the Board shall have obtained accounting or other professional qualifications;

(3) at least 70% of the members of the Board shall have more than ten years of experience in the industry he/she is specialised in; and

(4) at least two of the members of the Board shall have building decoration-related work experience.

For the year ended 31 December 2018, the Board has fulfilled the measurable objectives of the Board Diversity Policy.

Strategy Committee

The Company has established a Strategy Committee on 21 August 2015 with its written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the Strategy Committee are to (1) research and recommend to the Board the long-term development and strategic plans of the Company, (2) research and recommend to the Board matters that are material to the development of the Company, (3) check the implementation of above-mentioned matters that are approved via Board meetings or Shareholders' meetings; and (4) deal with other strategic matters that are authorised by the Board.

Our Strategy Committee consists of five members, being Mr. YE Yujing, Mr. WANG Zhaowen, Mr. LIN Zhiyang, Mr. LIU Yilun and Mr. YE Guofeng. Mr. YE Yujing currently serves as the chairman of our Strategy Committee.

Pursuant to the meetings of the Strategy Committee on 23 March 2018 of which all members attended during their present term of office, the Strategy Committee has researched the long-term development and strategic plans of the Company and recommended to the Board the matters that are material to the development of the Company.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board developed, reviewed and monitored the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, and the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report of Directors' Continuous Training and Professional Development, and Independence of Independent Non-Executive Directors.

Attendance Record of Directors

All Directors have access to the advice and services of the Company Secretary with a view to ensuring the Board procedures are followed. During the financial year ended 31 December 2018, a total of 12 Board meetings and 3 general meeting, the 2017 Annual General Meeting, the 2018 First Special General Meeting and the 2018 Second Special General Meeting, were held and the attendance of each Director is set out as follows:

	Attendance/Number of Meetings					
Name of Director	Board	Audit Committee(Note)	Remuneration Committee(Note)	Nomination Committee(Note)	Strategy Committee(Note)	General Meeting
Mr. YE Yujing	12/12	N/A	N/A	1/1	1/1	3/3
Mr. LIU Yilun	12/12	N/A	N/A	N/A	1/1	3/3
Ms. YE Xiujin	12/12	N/A	N/A	N/A	N/A	3/3
Mr. YE Guofeng	12/12	N/A	1/1	N/A	1/1	3/3
Mr. YE Niangting	12/12	N/A	N/A	N/A	N/A	3/3
Mr. TIAN Wen	12/12	N/A	N/A	N/A	N/A	3/3
Mr. WANG Zhaowen	12/12	3/3	1/1	1/1	1/1	3/3
※Mr. TANG Wai Man Raymond	8/8	1/1	1/1	N/A	N/A	1/1
※※Mr. CHEUNG Wai Yeung Michael	4/4	2/2	N/A	N/A	N/A	2/2
Mr. LIN Zhiyang	12/12	3/3	N/A	1/1	1/1	3/3

Notes:

※ Mr. TANG Wai Man Raymond resigned as an independent non-executive director on 20 August 2018.

※※ Mr. CHEUNG Wai Yeung Michael was appointed as an independent non-executive director on 20 August 2018.

Board Proceedings

Meetings of the Board of Directors shall be held regularly at least four times every year and shall be convened by the chairman of the Board of Directors. Directors shall be notified ten days before the date of the meeting. A quorum will be formed by more than half of the Directors (including the proxies) attending a Board meeting in person. If a Director is unable to attend a Board meeting, he may appoint another Director by a written power of attorney to attend on his behalf. Such a power of attorney shall specify the scope of authorization. Directors attending Board meetings on behalf of other directors shall exercise their power as directors within their scope of authorization. If a Director fails to attend a Board meeting and does not appoint an attorney to attend, the Director is deemed to have waived his rights to vote at that meeting. Each Director shall have one vote. Unless specified otherwise in the Articles of Association, resolutions of the Board of Directors must be passed by more than half of all the Directors. Where the numbers of votes cast for and against a resolution are equal, the chairman shall have the right to cast an additional vote. During the year ended 31 December 2018 there were twelve Board meetings held and all Directors attended the meetings that they were required to attend.

Board of Supervisors

The Board of Supervisors consists of three Supervisors and the non-employee representative Supervisors were elected by our Shareholders for a term of three years, which is renewable upon re-election and re-appointment. The functions and duties of the Board of Supervisors include reviewing and verifying financial reports, business reports and profit distribution proposals prepared by the Board; and if in doubt, appointing certified public accountants and practicing auditors to re-examine the Company's financial information; monitoring the financial activities of the Company, supervising the performance of the Directors, the president and other senior management members, and monitoring whether they had acted in violation of the laws, regulations and Articles of Association in the performance of their duties; requesting the Directors, the president and senior management members to rectify actions which are damaging to the Company's interests; and exercising other rights given to them under the Articles of Association. Each of the Supervisors has entered into a service contract with our Group.

Model Code for Securities Transactions

The Company has adopted the Model Code as the Company's code of conduct regarding Directors' and supervisors' securities transactions on terms or less exactly than the requested standard set out in the Model Code. Upon specific enquiries, all Directors and Supervisors confirmed that they have complied with the relevant provisions of the Model Code throughout the period from the Listing Date to the date of this report.

Senior management who, because of their office in the Company, are likely to be in possession of inside information, have also been requested to comply with the provisions of the Model Code.

COMPANY SECRETARY

The Group has appointed Ms. KOU Yue and Mr. LIU Yilun as our joint company secretaries. Both Ms. KOU Yue and Mr. LIU Yilun were appointed as the joint company secretaries of the Board of Directors since September 2015. Please refer to the paragraphs headed "Directors, Supervisors and Senior Management — Senior Management" for further details on Ms. KOU's biography. Mr. LIU, however, does not possess the specified qualifications required by Rule 3.28 of the Listing Rules. Therefore, our Company has appointed Ms. KOU, who possesses such qualifications, to be a joint company secretary of our Company. Please refer to the paragraph headed "Directors, Supervisors and Senior Management — Joint Company Secretaries" for further details on Mr. LIU's biography.

Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Listing Rules and other relevant laws and regulations, we have made the following arrangements:

(a) Ms. KOU, one of our joint company secretaries who satisfies the requirements under Rule 3.28 of the Listing Rules, will assist Mr. LIU so as to enable him to acquire the requisite knowledge and experience in order to discharge his duties and responsibilities as a company secretary of our Company. Given Ms. KOU's relevant experience, she will be able to advise both Mr. LIU and our Company on the relevant requirements of the Listing Rules as well as other applicable laws and regulations of Hong Kong;

(b) Mr. LIU, one of our joint company secretaries, will be assisted and supported by Ms. KOU for a period of three years commencing from the Listing Date. Upon expiry of the three year period, a further evaluation of the qualifications and experience of Mr. LIU and the need for on-going assistance would be made;

(c) Our Company will ensure that Mr. LIU has access to the relevant trainings and support to enable him to familiarise himself with the Listing Rules and the duties required of a company secretary of a Hong Kong listed company, and Mr. LIU has undertaken to attend such trainings;

(d) Ms. KOU will communicate with Mr. LIU on a regular basis regarding matters in relation to corporate governance, the Listing Rules as well as other applicable laws and regulations of Hong Kong which are relevant to the operations and affairs of our Company. Ms. KOU will work closely with, and provide assistance to Mr. LIU with a view to discharging his duties and responsibilities as a company secretary, including but not limited to organising the Board meetings and Shareholders' meetings of our Company;

(e) Mr. LIU will also be assisted by the Hong Kong legal advisers of our Company, particularly in relation to Hong Kong corporate governance practices and regulatory compliance, on matters concerning our Company's on-going compliance obligations under the Listing Rules and the applicable laws and regulations; and

(f) Pursuant to Rule 3.29 of the Listing Rules, Mr. LIU and Ms. KOU will also attend in each financial year no less than 15 hours of relevant profession training courses to familiarise themselves with the requirements of the Listing Rules and other regulatory requirements of Hong Kong. Both Mr. LIU and Ms. KOU will be advised by the legal advisors as to Hong Kong law as and when required.

The Group has applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rules 8.17 and 3.28 of the Listing Rules in respect of the appointment of Mr. LIU as one of the joint company secretaries of our Company, which is valid for an initial period of three years commencing from the Listing Date. Upon expiry of the initial three-year period, our Company will evaluate the qualifications and experience of Mr. LIU. Upon the determination of our Company that no on-going assistance is necessary, the Group will demonstrate to the Stock Exchange that, with the assistance of Ms. KOU over such three-year period, Mr. LIU has acquired the requisite knowledge and experience as prescribed in Rule 3.28 of the Listing Rules. The Stock Exchange will then re-evaluate whether any further waiver would be necessary.

The Company confirms that Mr. LIU Yilun and Ms. KOU Yue have for the year of 2018 complied with Rule 3.29 of the Listing Rules and attend no less than 15 hours of relevant professional training.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Board acknowledges its responsibility to prepare the Company's financial statements which give a true and fair view of the Company's state of affairs, results and cash flows for the year and in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Company has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern. The responsibilities of PricewaterhouseCoopers, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

Internal controls and risk management

The Board recognises its responsibility to ensure the Group maintains a sound and effective internal control system and risk management, the Board has conducted a review of the effectiveness of the internal control system and risk management of the Group during the year. The Group's internal control and risk management systems is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic basis annually based on the risk assessments of the operations and controls. No major issue but areas for improvement have been identified. The Board and the Audit Committee considered that the key areas of the Company's internal control and risk management systems are reasonably implemented and considered them efficient and adequate.

External Auditor

PricewaterhouseCoopers has been appointed as the external auditor of the Company. The Audit Committee has been notified of the nature and the service charges of non-audit services performed by PricewaterhouseCoopers and considered that such services have no adverse effect on the independence of the external auditor.

For the year ended 31 December 2018, the fees paid and payable to PricewaterhouseCoopers in respect of its review on the interim financial information and annual audit services provided to the Company was approximately RMB2.4 million.

There was no disagreement between the Board and the Audit Committee on the election and appointment of the external auditor during the year under review.

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("**EGM**").

Right to convene extraordinary general meeting

Any Shareholder(s) who individually or jointly hold 10% or more of the Company's issued voting shares at the date of the deposit of the requisition, shall at all times have the right, by written requisition sent to either (i) the head office and principal place of business in PRC or (ii) the Company's principal place of business in Hong Kong as set out in the manner below, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionist(s) and deposit it to the Board or the Company Secretary of the Company at either (i) the head office and principal place of business in PRC at 3rd Floor, Pengyi Garden Building 1, Bagua No. 1 Road, Futian District, Shenzhen, PRC or (ii) the Company's principal place of business in Hong Kong at Suite 2203, Level 22 Office Tower, Langham Place, 8 Argyle Street, Mong Kok, Kowloon, Hong Kong, and such may consist of several documents in like form, each signed by one or more requisitionists.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the Company Secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request which has been verified is not in order, the Shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within thirty days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

According to article 8.5 of the Articles of Association, when the Company convenes a shareholders' general meeting, written notice of the meeting shall be given forty-five days before the date of the meeting (including the date of the meeting but excluding the date on which the written notice is sent) to notify all shareholders whose names appear in the share register of the matters to be considered and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting twenty days before the date of the meeting.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual, interim and quarterly reports, notices, announcements and circulars and the Company's website at www.aidewei.cn.

Constitutional Documents

During the year ended 31 December 2018, the Company has amended the Company's constitutional documents on the extraordinary general meeting dated 27 November 2018 (i) to satisfy the Company's business development and expansion needs and to facilitate the change of its scope of operations; (ii) to amend the articles of association of the Company due to changes in the Company's business scope. For more details of the amendment. please refer to the circular dated 9 October 2018. The Articles of Association of the Company are available on the websites of the Stock Exchange and the Company.

Environmental, Social and Governance Report

This is the first environmental, social and governance report released by the Group pursuant to the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") provided in Appendix 27 to the Listing Rules on the Stock Exchange, which sets out the Company's policies and practices in three aspects namely environmental protection, working environment, and community involvement for the year ended 31 December 2018.

ENVIRONMENTAL PROTECTION

The Group's business operations are subject to a number of environmental protection laws, regulations, policies and standards in the PRC, including the Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境雜訊污染防治法》) and the Standards for Indoor Environmental Pollution Control of Civil Building Engineering (《民用建築工程室內環境污染控制規範》).

The Group is committed to minimising the adverse impact on the environment resulting from the Group's business activities. In order to promote environmental awareness and ensure compliance with the applicable environmental protection laws, regulations, policies and standards, the Group has established an environmental management system, which has obtained certification to ISO 14001. The Directors are of the view that the annual cost of compliance with the applicable environmental protection laws, regulations, policies and standards was not material during the Track Record Period and the cost of such compliance is not expected to be material going forward.

WORKING ENVIRONMENT

Employees

The Group believes that its long-term growth depends on the expertise, experience and development of its employees. The salaries and benefits of the Group's employees depend primarily on their type of work, position, length of service with the Group and local market conditions. In order to improve the Group's employees' skills and technical expertise, the Group provides regular training to the Group's employees.

The Group mainly recruits through recruitment fairs and on-campus recruitment. As of 31 December 2018, the Group had total of 368 employees. The following table provides a breakdown of the Group's employees by function:

Function	Number of employees
Administration and management	48
Project management	148
Design	27
Research and development	25
Technical support	3
Procurement	7
Sales and marketing	78
Accounting and finance	32
Total	368

The Group has a labor union that protects our employees' rights, assists us in attaining the economic objectives of the Company, encourages employees to participate in management decisions and assists us in mediating disputes with union members.

OCCUPATIONAL HEALTH SAFETY

Safety Management System

The Group is committed to providing a safe and healthy working environment for our employees and workers. The Group has adopted work safety measures to prevent the occurrence of industrial accidents and reduce construction risks, and our occupational health and safety management system has obtained certification to OHSAS 18001. The Group has in place construction safety and fire safety guidelines, and the Group's safety management system includes, among others, safety training to the Group's employees, regular on-site safety inspections, requiring the Group's workers to use safety equipment and ensuring that all technical staff, such as electricians and welders, have received specialised training and possess all necessary licences or qualifications. In respect of projects that are of a larger scale, the project supervision units and local government authorities will monitor and supervise, among other things, the implementation of work safety measures during project implementation.

The Group possesses the Work Safety Licence* (安全生產許可證) issued by the Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房和城鄉建設廳). Such a licence can only be granted by competent construction administrative authorities at provincial level or above, and to enterprises engaging in construction activities which have satisfied certain work safety requirements. Pursuant to the applicable PRC laws and regulations, the issuing authority of the Work Safety Licence* (安全生產許可證) has the power to, after granting the licence, monitor the implementation of the work safety measures by the relevant company and review the adequacy of such measures.

COMMUNITY INVOLVEMENT

The Group has been committed to fulfilling the corporate social responsibility and has continued to dedicate the internal resources to charitable activities. During the year ended 31 December 2018, the Group donated RMB10,000 to one Poverty Alleviation project in Shanglin County, Guangxi Province and donated RMB30,000 to Shenzhen Education Equipment Industry Association(in 2017: RMB80,000 donations and contributed 200 books for charity purpose in Mainland China).

I. ABOUT THIS REPORT

This report is the third "Environmental, Social and Governance Report" (hereinafter referred to as "ESG Report") issued by the Group. This report describes the Group's economic, social and environmental contribution during 2018 and responds to the expectations and concerns of the stakeholders.

Time Scope

This report covers the period from 1 January 2018 to 31 December 2018. To enhance the comparability of the reporting information, certain contents can be traced back to previous years.

Reporting Scope

The contents of this report cover the major business of the Group. For details of the Group's business, please refer to the Group's 2018 Financial Report.

Reporting Standard

This report is prepared in accordance with the Appendix 27 of "Environmental, Social and Governance Reporting Guide" (the "ESG Reporting Guide") of the Hong Kong Stock Exchange Listing Rules. The preparation of the report was in compliance with the principles of materiality, quantitative, balance and consistency, aiming at full reflection of the investments and achievements of the Group in the aspect of ESG.

Content Description

All data in this Report is derived from the official constitutional documents of the Group, statistical reports or relevant public information. Thus, the report is free of and from false information and misleading statements.

II. THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONCEPT

Adhering to the corporate vision of "Independent innovation, Establish a brand, and Become a leader in architectural decoration industry" and the national strategic direction and the Group strictly abides by relevant laws and regulations of the State,advocates and pursue the concept of sustainable development. During business development, the Group also takes the environmental and social benefits into account with its consistent commitment as a corporate citizen which is to care for the natural environment, put emphasis on employee's' development and maintain a fair and healthy operation environment. The Group is also committed to create long-term values for stakeholders so as to achieve sustainable development together.

The Group promises:

- "Learning the law and being truthful and honest" is the responsible attitude for us to employees, our shareholders, and our society.
- "Strive for Win-win, Become a leader in architectural decoration industry" is a lofty mission and a solid foundation for fulfilling our social responsibilities.
- "Devote more quality, Reach for perfection" is the virtue we adherent for all the time to create a stage with excellence as core.
- "To Love in harmony, to get from quality, to be top by development, to create brands", `is our spiritual motivation that drives us to protect the environment, conserve the resources, and continuously give back the society.

During 2018, the Group continues to improve its environmental, social and governance systems, clearly defines the division of responsibilities from management to administration, and ensures that the environmental, social and governance philosophy is better integrated into the strategic planning and operational decision-making processes of the Group. The Board of Directors of the Group is ultimately responsible for environmental, social, and governance related matters. These include the formulation and implementation of ESG strategies and ensures the effective operation of ESG risk management and internal control system, and at the same time reviewing the effectiveness of ESG work, and reviews and officially approves annual ESG report.

III STAKEHOLDER ENGAGEMENT

The trust from stakeholders and their participation are the basis for the sustainable development of a company. The Group emphasizes on the management of stakeholder relationship, continuously improves the communication mechanism, actively communicates with the government, investors, shareholders, customers, suppliers, partners, community and other internal and external stakeholder groups through various channels to understand their expectations and suggestions, and takes these as the basis to continuously improve its sustainable development strategies to strive to deepen the trust and cooperation to achieve a sustainable future of economic growth, environmental friendliness and social development.

Stakeholder	Expectations and Requests	Communication and Response
Shareholders and investors	Financial performance	Convenes general meetings
	Protect legal rights	Improves profitability
	Corporate information disclosure	Daily information disclosure
	Risk control	Optimizes internal control and risk management
Government and regulatory authorities	Operate in compliance with the law	Law-abiding operations
	Tax payment in accordance with the laws	Tax payment on time and in full
	Respond to the national call	Actively implements related policies
	Foster the economic development	Proactively undertakes social responsibilities
Employees	Protect legal rights	Compliance with labor regulations
	Promotion and development platform	Improves the training and promotion mechanism
	Healthy and safe working environment	Maintain a healthy and comfortable office environment
	Remuneration and benefits	Provide competitive salary
Clients	High quality products and services	Product and service management
	Customer privacy protection	Improve the information security system
	Adhere to business integrity	Customer satisfaction survey
	Insist on compliance operation	Optimize internal control and risk management

Stakeholder	Expectations and Requests	Communication and Response
Suppliers and partners	Cooperation with integrity	Improve supplier management mechanism
	Experience sharing	Promotes daily communication
	Win-win cooperation	Carries out project cooperation
	Business ethics and reputation	Performance of contract in accordance with laws
Industry associations	Fair competition	Improve research and development capabilities
	Promote industry progress	Participate in industry seminars and exchanges
	Improve industry management standard	Sharing operation and management insights
Community and the public	Support social welfare	Participate in charity works
	Protect the nature	Adhere to green operations
	Promote social progress	Sharing development achievements

IV. 2018 MATERIALITY ASSESSMENT OF ESG TOPICS

In order to get a better picture of the stakeholders' demand, the Group has developed a comprehensive analysis process to identify and screen key topics that are important to the business and stakeholders, and to create a materiality matrix, which will assist the Group to determine the ESG management aims for next year.

The materiality assessment for the year mainly covered the following four steps:

1. Identify Topics

According to the ESG guidelines and disclosure requirements, we will sort out the key issues of corporate sustainability, clarify the needs of various stakeholders, and rationalize the sustainable development topics that are highly relevant to the corporate.

2. Research on Topics

Internal and external stakeholders were invited to score the materiality of 17 ESG topics, and the ranking of the materiality of the 2018 ESG topics was compiled based on the survey results.

3. Select Topics

Based on the opinions of all parties, preliminary screening of key topics is carried out on their importance to the Group's business development and stakeholders.

4. Review Topics

Through the review of the topic selection result undertaken by the Group's internal management and external experts, 6 topics will be determined as the most important topics and the focus of disclosure of the report.

The materiality matrix of the Group's ESG topics and the important topics of 2018 are as follows:

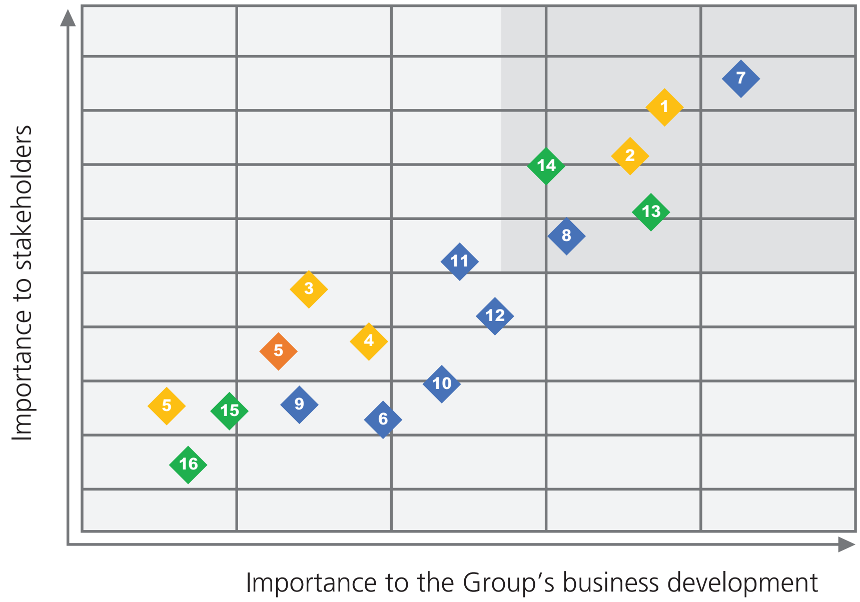


Figure 1: Materiality Matrix of 2018

Importance to Business Development

Employee and labour regulations

1. Talent recruitment and team building
2. Occupational Health and Safety
3. Employee's benefits and protection of rights
4. Employee training and development
5. Prevention of child labor and forced labor

Operational regulation

6. Management of supply chain environment and social risks
7. Product quality management
8. Product R&D and intellectual property protection
9. Customer Privacy and Information Security
10. Reasonable Promotion and Marketing
11. Compliance operation and risk management
12. Clean and honest operation

Environmental protection	Social investment
13. Compliance emission and green operation	17. Participation in social charity work
14. Green office and environmental promotion	
15. Waste disposal and recycling	
16. Consumption of water resources and sewage treatment	

Comparing the assessment results in 2017 and 2018, they are largely consistent, mainly focusing in issues related to products, employee and environment. Based on the assessment results, the Group will provide a transparent, comprehensive and targeted response in this report. The Group will also take these assessment results as the basis for review and improve the ESG management objectives and plans next year so that the level of ESG management and information disclosure will continue to improve.

V. TO CREATE A GREEN ENVIRONMENT TOGETHER

The Group has always attached great importance to fulfilling its environmental protection responsibilities, strictly abides by national and regional environmental protection laws and regulations including Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes, Environmental Protection Law of the People's Republic of China, integrates the concept of environmental protection into business development and daily operation. Apart from that, the Group also actively promotes energy conservation and consumption reduction measures to reduce the ecological footprint and continuously improve the Group's environmental protection performance. During the reporting period, the Group did not violate environmental laws and regulations.

1 Green Civilized Construction

The Group paid great attention to the environmental impact during project construction and strictly monitors the key influencing factors such as dust, noise, and exhaust gas. During 2018, the Group further optimized the "Construction Site Hygienic Management Measure" and put forward detailed requirements for the hygienic management of the construction sites:

- Dust: In the process of mixing or transportation of the separate mortar, the material must not be sprinkled, leaked and left while it shall be held by a container or a pad. If it is sprinkled or leaked, it should be cleaned up in time;

- Waste: Temporary stacking points should be set up at appropriate locations, and construction waste should be loaded regularly with containers such as woven bags while recyclable metal waste will be recycled; general construction waste will be collected in strict accordance with the regulations of local city appearance management; a small amount of chemical hazardous waste generated is sent to a qualified professional company for removal and treatment, to ensure the compliance of the treatment;

- Noise: Strictly abided by regulations on construction hour and adopted low-noise equipment to reduce noise interference；

- Exhaust gas: It was forbidden to burn waste and obsolete materials and toxic and hazardous substances in the construction site.

The Group minimizes the usage of energy and resources during the construction process, actively responds to the State's call for "building a green ecological civilization", carrying out regular inspections to promptly rectify problems. There is also clear reward and punishment measures to ensure compliance management of environmental hygiene at the construction site.

The design and construction of Group's architectural decoration project, mechanical and electrical equipment safety engineering contracting and related management activities have passed GB/T24001/ISO14001 environmental management system certification. The Group adheres to the principle of "green construction" and continuously improves its environmental management system as an environmentally friendly corporate.

2 Green Office

To adhered to the concept of "green office", the Group actively implemented an office area management system, and achieved its environmental protection goals through various means by through the introduction of the 6S system for office environment management, aiming at the six cores such as SEIRI, SEITON, SEISO, SEIKETSU, SHITSUKE and SAFETY:

- Energy Saving and Emission Reduction: In daily office, the Group adheres to the principle of energy conservation and consumption reduction. Lighting is controlled by region while LED lights are installed. In addition, the Group has given priority in purchasing energy saving appliances and electronic products. In order to avoid waste of electricity, automatic sleep mode is set in computers and printers. Maximize the use of video conferencing and online communication to reduce greenhouse gas emissions and exhaust emission during travel.

- Water Conservation: The Group has installed sensing faucet. The Group has also enhanced the maintenance and management of water equipment, thus avoiding water leakage. Posters are posted to remind staff to minimize water usage;

- Saving Papers: The Group promoted a paperless office management system to reduce the printing of paper documents; the printer was set to double-sided printing to save printing paper; the office paper-receiving system was implemented, and the printing permission and upper limit were set.

- Saving Office Resources: In order to guarantee operational efficiency and extend useful life of equipment, the Group has conducted office equipment maintenance on regular basis. The Group has implemented the system which employees have to apply for their stationary. While fulfilling the needs for our daily operation, the Group has urged its staff to work in a resources-saving manner and avoid unnecessary waste.

- Waste Management: Old electrical appliances, electronic equipment, printer cartridges and other equipment are classified and collected for recycling by qualified professional firms. Cleaners collect office garbage and hand it to sanitation station for centralized treatment so as to minimize the negative impact on environment.

3 Environmental Promotion

Through training and promotion activities, the Group has actively promoted environmental protection laws and regulations and relevant internal environmental protection policies and systems to its staff, so as to ensure that the staff can timely understand regulatory requirements, enhance their environmental protection awareness and focus on environmental protection related matters in daily operation. Employees are encouraged to start practicing green working and living styles in their daily lives.

Key Environmental Performance Data for 2018

Key Performance Indicators	Unit	Use/emissions
Sulphur dioxide	Kg	0.33
Nitrogen oxides	Kg	15.59
Particulates	Kg	1.15
Greenhouse gas emissions (Scope 1)	Ton CO_2e	61.65
Greenhouse gas emissions (Scope 2)	Ton CO_2e	3,266.91
Greenhouse gas emissions in total (Scope 1+Scope 2)	Ton CO_2e	3,333.03
Hazardous waste	Ton	0.14
Non-hazardous waste	Ton	1,908.15
Metal waste (recyclable)	Ton	357.18
Petrol	Liter	22,766.54
Direct energy consumption	GJ	710.9
Electricity	kWh	3,660,521.25
Indirect energy consumption	GJ	13,177.88
Total energy consumption	GJ	13,888.78
Energy consumption intensity	GJ/RMB10,000 of revenue	0.09
Water consumption	m^3	93,114.88
Water consumption intensity	m^3/RMB10,000 of revenue	0.61

1. All the data in the above list generated during the period from 1 January 2018 to 31 December 2018. The environmental data collection scope includes the Group's headquarters office area in Shenzhen and the projects under construction during 2018 (The income of projects exceeds 50% of the Group's total project revenue this year).

2. Energy consumption from the Group mainly resulted from petrol consumption of Group's official vehicles and purchased electricity. The atmospheric emissions, greenhouse gas related emissions were accounted for with reference to the ESG Environmental Data Reporting Guidelines issued by Hong Kong Stock Exchange. In particular, the greenhouse gas emission factor of purchased electricity was accounted for with reference to the 2015 China Regional Grid Baseline Emission Factor (《2015中國區域電網基準線排放因子》) issued by the China National Development and Reform Commission.

3. The energy consumption coefficient is based on China's "GB2859–2008T General Principles for Calculation of Total Production Energy Consumption".

4. The Company's water resources mainly come from municipal water supply.

5. The Company's major business activities do not involve using any packaging material. KP1 A2.5 is not applicable, hence it is not disclosed.

VI. TO GROW WITH THE EMPLOYEE

The Group adheres to the talent strategy of "people-oriented", with the principle of fair and open recruitment, and strives to build a good career development platform for employees, protecting their rights and interests. The Group also cares for employees' health, encourages employees to maximize their potential, and is committed to achieve coordinated development between the employees and the Group. During the reporting period, the Group did not violate any laws and regulations related to employment, occupational health and safety, and labor standards.

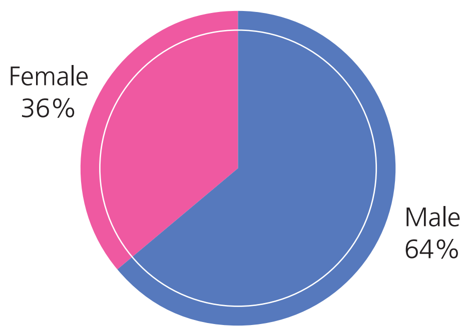
1 Employee recruitment and career development

The Group adheres to the principle of equal employment and implements the "Recruitment Management System", and introduces talents through multiple channels such as internet recruitment, campus recruitment, headhunting agents and internal referral to meet the rapid growth of the Group's human resources needs. The Group complies with the Labor Law, Labor Contract Law and other legal requirements of the locations where the business operates, and has entered into written labor contracts with each employee, and strictly performed the terms of the contracts to maintain a good labor relationship.

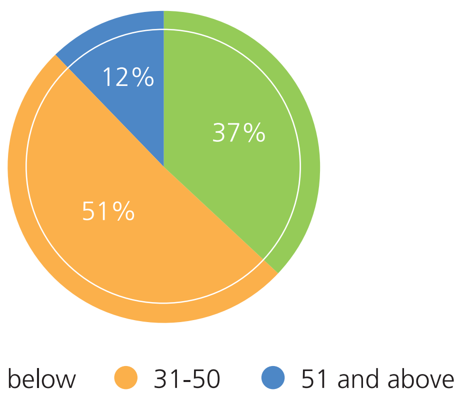
In November 2018, the Group's 2018 campus recruitment officially kicked off, and it was promoted through multiple channels, focusing on recruiting new talents to the Group's strategic development, finance and administrative centers.

As of 31 December 2018, the Group had 368 employees.

No. of employee (by gender)



No. of employee (by age)



The Group is committed to building a comprehensive, multi-channel career development platform for employees, providing each employee with fair, just and rich opportunities for promotion. Employees can accumulate their experience through the position promotion and professional promotion to earn an achievement in their career.

2 Performance Management, Remuneration and Benefits

The Group has established a scientific, fair and transparent performance management mechanism. During 2018, the HR department formulated and implemented an annual performance appraisal program, focusing on performance orientation, and comprehensively evaluating employees based on their work attitude and potential. The evaluation results serve as an important reference for employee promotion, salary adjustment, training development, bonus approval, and performance improvement. This affirms and motivates employees to improve their performance continuously.

The Group has set up a lawful and sophisticated remuneration and benefit protection system, implemented the Remuneration Management System. Employee remuneration includes basic salary, bonus and welfare subsidy. To attract and retain talents, the Group adjusts remuneration with reference to changes in prevailing industry average wage standard and price fluctuations to ensure employees enjoy competitive remuneration.

The Group also contributes to the "social insurance and housing fund" and protects employees' statutory benefits such as holidays. In order to show our care to the employee,, the Group has developed a variety of welfare programs, such as arranging free annual body check, Group's trip and free lunch at work, as well as organizing festival celebrations and distributing holiday gifts to our employee, in an effort to enhance employees' sense of well-being and belonging to the Group.

From 3 to 4 November 2018, the Group organized a two-day outdoor development activity in Bay and Shuangyue Bay, Huizhou. Through this activity, employees can effectively relax physically and mentally and released from their pressure after the tension at work. Meanwhile, it can foster the communication between employee so as to enhance the team cohesion and build up the team spirit, activeness and ambition.

3 Employee training

The Group is committed to improving the employee training mechanism, formulating and conscientiously implementing the employee training management system. The Group also conducted diversified training activities, integrating internal and external resources to promote the professional knowledge and skills of employees, improving their efficiency at work, and laying a solid foundation for the rapid development of the Group.

During 2018, the Group's HR department formulated an annual on-the-job training implementation plan for employee based on our business needs and their job nature. Each department/center does not only conduct professional knowledge and skills training for their own department but it also strengthens cross-department cross-training and topic-specific or skill-specific training to provide systematic knowledge and ability training for the personal growth of the employee.

The Group provides on-the-job training for new employees, providing a comprehensive orientation to the Company's culture, environment, business situation, and job requirements to help new employees integrate into the working environment quickly. During 2018, the Group organized 11 new employee induction trainings.

4 Employees' Health and Safety

Promoting health and safety of employees is a key element in maintaining stable operation within the Group. The Group continues to enhance its health and safety management systems and promote activities and training on safety, provides healthy and comfortable working environment for employees and safeguards their physical and mental health.

1) Ensure Occupational Safety

In strict compliance with the Work Safety Law of the People's Republic of China and other relevant national and local laws and regulations, the Group has formulated and implemented the "Safety Production Management Measure" in accordance with the safety principle of "safety first, prevention-oriented and comprehensive management" in order co-operate with subcontractors to ensure the safe and civilized construction of the projects.

During 2018, the Group revised the "Safe Production Management Measures" to strengthen the construction site safety management and improve working conditions for the Group. This specifies the safety management responsibilities, enhances the awareness of safety prevention and supervision of the companies and construction units and prevents the occurrence of safety incidents.

The Group established the Safety Production Department as a safety production management agency, responsible for the overall safety production of the Company, preparation of the safety emergency plans and conducting emergency rescue drills. For positions with higher risk, operators need to be certified to ensure safe operation. The Safety Production Management Month was held every June and December each year. The Safety Production Department together with the Project Management Department conducts comprehensive inspections of safety production and the investigation on safety production accidents and hidden risks so as to ensure the safety of projects under construction.

"Safety Management Measures for Construction Sites" is earnestly implemented earnestly in all construction projects which include hiring full-time safety administrators, abiding by safety production methods and technical measures and conducting regular self-inspection. Meanwhile, the Group also attaches great importance to safety education and training by enhancing the safety awareness and preventing negligence.

Furthermore, the Group also attaches great importance to fire safety, installing fire-fighting equipment in accordance to the size of the project and the number of people, regularly conducting fire-fighting training and firefighting drills so as to improve the fire escape capacity and collaborative rescue capability of the employee at the construction site.

2) Care for the Physical and Mental Health of Employees

The Group regularly organizes employee health training and promotion, providing body checks for employee and alerting them about their health. There is also canteen at the headquarters to provide employees with a hygienic and healthy diet. We also promote a healthy work lifestyle to guide our employee into building up an active and healthy attitude.

In order to enrich the leisure time our employee and enhance their body build, and foster the unity, collaboration and team spirit among team members, the Group has established an employee basketball team with employee coming from every departments. In October 2018, the Group's basketball team participated in the Shenzhen City Decoration Industry Basketball Competition and they entered the top 16 after a few months of crouching and training.

5 Employees' Rights and Equal Opportunities

In strict compliance with employment related laws and policies such as Labor Law of the People's Republic of China, the Group has established a comprehensive human resources management system to perform standardized management on recruitment, performance, remuneration, benefits and other aspects to safeguard employees' rights in an effective manner.

The Group has strict stipulations about overtime work. If there is a need to work overtime, employees must obtain an approval from the relevant supervisor and may apply for subsequent day off. The Group also strictly prohibits child labor and forced labor.

Pursuing an equal and fair employment principle, the Group ensures that the employees are not treated differently due to factors such as gender, age, nationality, race, religion and so on to eliminate any form of discrimination. The Group also strictly protects the labor rights of female employees by strictly complying with national regulations and offering female employees with maternity and nursing leave.

VII. TO DEVELOP WITH SUPPLIERS

The specific and honest cooperation with suppliers is the guarantee of the Group's quality projects. The Group strictly implements systems such as the "Purchasing Management System" and work guidelines, upholding a fair and just cooperation attitude, maintaining an open and transparent tender bidding environment so as to provide a fair competition platform for suppliers for achieving a common development.

Supplier Approval Assessment

The Group's Procurement Department conducts a strict selection of applicable suppliers and undergoes qualification assessment based on the requirement of the project and the technical standard. The suppliers that pass the assessment will be categorized into "List of Potential Suppliers" with on-site inspection. The Supplier Assessment Team which is formed by the Procurement Department, Construction Management Department and the other departments will carry out on-site inspection on potential suppliers so as to ensure the implementation of an effective quality control from the procurement source.

Based on the results of the on-site assessment, the Group will categorize the qualified suppliers into the "Supplier Brand Database" and maintained close connection with them to continuously accumulate excellent supplier resources.

Periodic assessment of suppliers

In order to ensure the quality of the products and services supplied, the Group conducts quarterly and annual assessments of major suppliers. The assessment dimension covers from supplier performance in fulfilling the contract, delivery quality to the pre-sales and after-sales service level to ensure the fairness and impartiality of supplier assessment. According to the results of the ratings, suppliers are divided into four levels and to be managed hierarchically. Different levels of reward and punishment measures are implemented to strengthen supply chain management and promote the continuous and steady improvement of product quality.

Supply chain responsibility management

The Group attaches great importance to the supervision of the tendering and bidding process, guaranteeing the legitimate rights and interests of the partners and the enterprises themselves. The Group signed an Anti-Commercial Bribery Agreement with the cooperating suppliers to urge employees and partners to abide by business ethics, practice business integrity, and prevent corruption and commercial bribery.

In the supplier evaluation process, the Group strictly assess the supply product quality, technical capabilities, business qualifications and other factors. At the same time, it pays close attention to the supplier environment, occupational safety and health, the establishment and management standard of the employee rights and interest system, promoting the corporate emphasis on environment and social responsibility management so as to achieve a long-term stable and sustainable development of enterprises with the suppliers.

The Group also focus on the employment management of outsourcing parties for some projects, and strives to reduce labor disputes, maintaining the quality and safety management of the construction site, and ensuring the stable and smooth operation of the project.

Through strict supplier screening, evaluation, and classification management mechanisms, the Group provides clear and fair guidance on institutional procedures and standards for the projects managed by the suppliers, which effectively manages supply chain risks, and creates new win-win situations with cooperating partners.

VIII. CREATING VALUE FOR CUSTOMERS

Project quality management is a core element of the Group's development. The Group strictly abides by the relevant laws, regulations and contract terms, continuously improving the management level of products and services so as to meet customers' demand for high-quality projects and create long-term value for customers.

1 Project quality management

The Group fully implements the national guidelines, policies, laws and regulations on quality management, and has established clear system guidelines for all aspects of raw material acceptance, engineering construction, and completion of delivery, and vigorously perform our management and supervision functions and put the accountability and reward and punishment mechanism into practice, strictly control the construction process to ensure that the project quality meets national standards or higher than the national standard; timely grasp the quality information, analyze the quality dynamics, to achieve continuous improvement of project quality.

The Group adopts a policy that the project manager is responsible for coordinating project quality management, coordinating the project quality management work, implementing responsible distribution of work in project quality management. The Group will also carry out supervision and inspection on key processes such as technology preparation, technical disclosure, raw material inspection, construction operation and potential constructions in regarding to national laws, regulations and various technical management measures. There will also be supervision assessment on core problems such as the quality of the construction project, craftmanship and progress so that the Group will be in control of the construction quality, establishing quality accounts for regular analysis and timely report. Thus, a continuously promoting project quality controlling system can be operated in the long run.

The Group continued to implement the model system and "Self-inspection, mutual inspection, professional inspection" system. Each product should be made following design requirements, specification requirements and quality standards, as shown by the prototype. Products that cannot meet the quality requirements on the prototypes during construction will be considered as unqualified, and will be reworked and submitted for repeated acceptance inspection after rework processing until they are qualified for acceptance, which effectively guarantees the quality of a project. During 2018, the Group further promoted the quality management formatting of the project to ensure the standardization of project quality document management.

The Group attaches great importance to quality and technical training for employees, ensuring their familiarity with quality standards and that they master the product technology, consolidating and enhancing their quality awareness, which in turn will ensure the project quality delivery.

In respect of project awards during 2018, the curtain wall project of Shenzhen OCT Jindi Century Building, the interior decoration of the five-star "Radisson" Hotel in Lianfa Peninsula, Wuhan, and the building and decoration of Ningxia International Conference Center (the second) were awarded the National Outstanding Award, which is the highest award for the sub-sector of construction and decoration. Continuously adhering to our corporate mission, the Group promotes the spirit of Luban to develop exquisite techniques, improves the quality of decoration through technology, and launches trend-setting boutique projects, leading the design of urban decoration.

2 Innovative R&D and intellectual property protection

Technological innovation is the source of a company's sustainable development. The Group actively responds to the direction of national macro-policies, which is to innovate, in the development direction of energy conservation, environmental protection and intelligence, vigorously investing in new process and the R&D and application of new technologies so as to enhance the Group's core competitiveness. To achieve the Group's strategic goals, during 2018, the Group invested more in research and development, further deepening new technological innovations such as lighting and energy-saving of building structures and energy-saving of fire-fighting water systems. At the same time, it further explored the intelligent management of projects and promoted the development and application of project intelligent control software such as building a multi-platform and multi-terminal intelligent system to improve the overall management efficiency of projects and ensure the quality of the project in multiple dimensions.

While vigorously investing in R&D and innovation, the Group attaches great importance to protecting our intangible assets, formulating and implementing the "Intellectual Property Management System", setting up special funds for intellectual property rights, and establishing a patent information database of leading products (technologies) to enhance the management of intellectual property information. We also encourage employees to invent actively, boosting the application of the invention result.

According to the provisions of the Group System, before the establishment of scientific research projects, new technologies and new products, it is necessary to conduct research and update on patents and non-patent literature, and submit research reports to propose feasibility suggestions for decision-making from the perspective of intellectual property rights in order to avoid duplication in R&D and unnecessary disputes over infringement. In the event of infringement or counterfeiting, or patent infringement disputes or other patent disputes, the Brand Qualification Department shall take timely measures to actively carry out rights protection activities.

In order to effectively protect intellectual property rights, the Group must sign a "Non-Disclosure Agreement (Guarantee)" when signing a labor contract with employees (including temporary workers). In order to enhance the ability and awareness of employees' toward intellectual property right protection, the Group actively carries out relevant training and presentations, introduces importance of intellectual property right or common intellectual property issues in daily work, as well as emergency response measures for infringement disputes to reduce the Group's legal risks.

As of 31 December 2018, the Group successfully registered 76 utility model patents, 30 computer software copyrights and 1 invention patent.

3 Reasonable Promotion and Marketing

The Group strictly adheres to related laws and regulations such as The Advertisement Law of the PRC (《中華人民共和國廣告法》), formulating and implementing marketing and marketing related system standards, in order to be honest and responsible, as well as fair and open so as to defend our brand image and effectively protect the legal rights and interests of the customers. The Group's content which is applied for advertisement promotion such as the advertisements and production promotional materials must be subject to review and approval before external use. The Group strictly controls the authenticity, accuracy and scientificity of the contents of the promotional materials so as to forbidden exaggerated and misleading promotion.

4 Customer Information and Privacy Protection

The Group has strictly complied with the requirements of the Cyber Security Law of the PRC (《中華人民共和國網絡安全法》) and other laws and regulations, formulating and implementing the Strict Customer Information Management System Specification. Through the permission setting of the information system, and restricting the use of various information media carrying customer information, the customer is protected information from unauthorized access, use and leakage. Meanwhile, through regular inspections of hardware and software and disaster management, database permissions settings and other measures, the Group strives to ensure safe operation of information systems to safeguard customer information.

The Group attaches great importance to strengthening employees' confidentiality awareness. Employee are required to sign confidentiality agreements once they are on board. The Group also emphasizes on daily customer information confidentiality requirements, and urges employees to protect customer privacy at work so that a long-term trusting relationship can be maintained with our customers.

5 Customer Service and Satisfaction Survey

The Group attaches great importance to listening to customers' opinions. It has set up a "Customer Opinion Survey Form" to invite customers to score in the dimensions of construction quality and the service standard during the construction process and after the completion of work. The Group will launch optimization as to increase the working efficiency and continuously improve the service standard, pinpointing the customers' evaluations and comments. This, the customers will be more satisfied with our work and a good corporation relation can be established and maintained.

IX. ANTI-CORRUPTION AND INTEGRITY CONSTRUCTION

Honesty and trustworthy, compliance in laws and regulation, clean and self-discipline are the cornerstones of a long-term stable development of the Company. The Group strictly abides by the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》) and other relevant policies and systems, and continuously improves the internal inspection measures, enhancing internal risk management measures and enforcement, and strengthening the promotion and education of employees. We also strictly eliminate corruption, fraud, bribery and other violations of law and discipline. During 2018, there was no corruption lawsuit against the Group or any employee.

The Group has set up a number of reporting channels such as telephone hotline, email, President Mailbox, etc., and announced them in employee handbook, anti-commercial bribery agreements and other documents. In order to encourage the whistleblowing of anti-corruption, based on independence consideration, apart from the setting up of President Mailbox, there were also designated Internal Audit Department Manager's Mailbox for whistleblowing which were announced to all employees.

The Group's Audit Department is responsible for receiving internal and external reporting. The Audit Department will submit the reported matter to the general manager or the board of directors weekly based on the rank of the reporting personnel involved, in order to determine the follow-up investigation plan. The Group imposes corresponding administrative disciplinary sanctions on confirmed commotion of fraudulent practices in accordance with relevant regulations; for the incidents that violate the law, the personnel concerned will be transferred to the judicial authorities for actions according to law. Meanwhile, timely remedial measures shall be taken within the Group to evaluate and improve the internal control of the affected business unit. The Group is highly confidential about the identity of the informer and the reported matters, and strictly limits the scope of disclosure during the investigation.

The Employee Handbook specifies the red lines and clearly defines the relevant accountability and punitive decisions. The Group attaches great importance to integrity education, cultivates employees' integrity at work, and jointly safeguards the integrity of the Group.

X. CREATING VALUE FOR THE SOCIETY

The Group gives back to the community. The Group strives to perform its social responsibility by actively participating in various public welfare undertakings, as well as providing monetary and in-kind donations to different charity businesses.

List of Industry Association participated by the Group

Vice president of Federation of Shenzhen Industries
Executive director of China Building Decoration Association
Member of Guangdong Construction Industry Association
Member of the Shenzhen Construction Industry Association
Director of Shenzhen Decoration Industry Association

The honor and awards received by the Group during 2018

Top 100 Enterprises in China Architecture Decoration Industry
The interior decoration of the five-star "Radisson" Hotel in Lianfa Peninsula Wuhan won a National Outstanding Award
The Curtain Wall Project of Shenzhen OCT Jindi Century Building won the National Outstanding Award
The building and decoration of Ningxia International Conference Center (the second) won the National Outstanding Award

羅兵咸永道

To the Shareholders of Guangdong Adway Construction (Group) Holdings Company Limited
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Guangdong Adway Construction (Group) Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 55 to 98, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

1. Revenue recognition of construction contracts

2. Recoverability of trade receivables and contract assets

Revenue recognition of construction contracts	How our audit addressed the Key Audit Matter
Refer to Note 2.23(i) for the accounting policy of revenue recognition of construction contracts, Note 4(a) for the critical accounting estimates and judgements involved and Note 6 to the consolidated financial statements. The Group recognised revenue from construction contracts amounted to RMB1,759,227,000 for the year ended 31 December 2018, representing approximately 96% of the Group's total revenue. Contract revenue is recognised over the contract period by referencing to the stage of completion. The stage of completion is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budget cost. We focused on this area because the recognition of revenue from construction contracts involved judgements by management, which mainly included determination of the stage of completion and the estimated budget cost.	We understood, evaluated and validated the design and operating effectiveness of the controls over revenue recognition of construction contracts. Those controls included management's review on the budget cost and the stage of completion of contracts, as well as controls over the aggregated cost incurred and the variation orders. We selected revenues recognised from construction contracts using sampling technique and tested the aggregated cost incurred by examination of project documentation, including construction agreements, payment records, receipt notes of materials and labour cost records. With respect to the budget cost for the samples selected, we examined the detailed budget prepared by management and examined the additional variation orders. We tested the percentage of completion by performing recalculation, comparing the aggregated cost incurred for the individual contract to the estimated budget cost with management's calculation. Based on our audit procedures, we found management's judgements and estimates used in the revenue recognition of construction contracts were supported by available evidence.

Recoverability of trade receivables and contract assets	How our audit addressed the Key Audit Matter
Refer to Note 2.12 and 3.1.2 for the accounting policy of impairment of financial assets and contract assets, Note 4(b) for the critical accounting estimates and judgements involved, Note 5(a) and Note 19 to the consolidated financial statements. As at 31 December 2018, the net book value of trade receivables and contract assets amounted to RMB589,087,000 and RMB1,581,757,000 respectively, accounted for approximately 83% of the Group's total assets in aggregate. Management performed periodic review on the status of construction projects and individual credit evaluations on significant customers. These evaluations focused on the customer's settlement history and current and future ability to pay, and took into account the information specific to the customer as well as pertaining to the current and future economic environment in which the customer operates. For trade receivables and contract assets which were not subject to individual evaluations or individually assessed as not impaired, management collectively assessed expected credit losses taking into account of the ageing analysis and historical bad debt losses incurred in respect of those group of customers. The historical loss rates are adjusted to reflect current and forward-looking information affecting the ability of the customers to settle the receivables. We focused on this area because management made judgements over the timing of recognition of impairment for trade receivables and contract assets and the estimation of the amount of any such impairment.	We understood, evaluated and validated the design and operating effectiveness of the controls over impairment assessment of trade receivables and contract assets. Those controls related to the identification of events that triggered the provision for impairment of receivables from construction contracts and estimation of the impairment provisions. We obtained a breakdown of individual significant customer recoverability assessment from management. Where impairment was individually provided, we tested the receivables and assets from construction contracts on a sampling basis to check the impairment was evidenced in relation to the time and extent of the provision provided. In addition, we examined on a sample basis the individual significant customer which had not been identified by management as potentially impaired and performed audit procedures to assess the recoverability. Our procedures included examination of the construction progress, independent research on public available information and examination of payment records in the past and current years. In respect of the collective assessment, we reviewed the underlying information referenced by management through validation of the ageing reports and comparison with the collection records and average industry provision rate. We also evaluated whether the historical loss rates were appropriately adjusted based on current and forward-looking information. Based on our audit procedures, we found management's judgement and estimates used when assessing the recoverability of receivables from construction contracts were supported by available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Chow, Shiu Hay Antonio.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	6	**1,830,783**	1,672,758
Cost of sales	7	**(1,577,729)**	(1,448,589)
Gross profit		**253,054**	224,169
Selling and marketing expenses	7	**(11,624)**	(7,905)
Administrative expenses	7	**(41,023)**	(36,099)
Net impairment losses on financial and contract assets		**(20,126)**	(18,401)
Other income — net	9	**6,488**	5,361
Operating profit		**186,769**	167,125
Finance income		**2,442**	929
Finance costs		**(40,194)**	(30,759)
Finance costs — net	10	**(37,752)**	(29,830)
Profit before income tax		**149,017**	137,295
Income tax expense	11	**(18,304)**	(21,456)
Profit for the year		**130,713**	115,839
Other comprehensive income		**—**	—
Total comprehensive income for the year		**130,713**	115,839
Total profit and comprehensive income attributable to:			
Owners of the Company		**130,713**	115,839
Earnings per share			
— Basic and diluted (RMB)	12	**61.69 cents**	54.89 cents

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2018 RMB'000	 2017 RMB'000
ASSETS			
Non-current assets			
Property and equipment	15	**74,427**	83,186
Lease prepayments — land use rights	16	**9,646**	9,932
Investment properties		**732**	775
Intangible assets	17	**3,545**	5,299
Deferred income tax assets	18	**26,976**	24,178
Other receivables	20	**20,941**	25,578
		136,267	148,948
Current assets			
Contract assets	5(a)	**1,581,757**	—
Amounts due from customers for contract work	2.2(ii)	**—**	1,255,340
Trade receivables	19	**589,087**	357,150
Prepayments and other receivables	20	**117,113**	74,435
Restricted cash	22	**7,160**	761
Cash and cash equivalents	21	**180,059**	281,750
		2,475,176	1,969,436
Total assets		**2,611,443**	2,118,384
EQUITY			
Equity attributable to owners of the Company			
Share capital	23	**221,050**	211,050
Share premium	23	**218,598**	168,472
Other reserves	24	**77,448**	63,538
Retained earnings		**567,634**	457,163
Total equity		**1,084,730**	900,223
LIABILITIES			
Non-current liabilities			
Deferred revenue		**1,701**	1,774
Current liabilities			
Trade and other payables	25	**903,976**	438,481
Contract liabilities	5(a)	**107,856**	—
Amounts due to customers for contract work	2.2(ii)	**—**	42,954
Borrowings	26	**496,021**	721,000
Current income tax liabilities		**17,159**	13,952
		1,525,012	1,216,387
Total liabilities		**1,526,713**	1,218,161
Total equity and liabilities		**2,611,443**	2,118,384

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The financial statements on pages 55 to 98 were approved by the board of directors on 28 March 2019 and were signed on its behalf.

Ye Yujing	**Ye Guofeng**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital RMB'000 (Note 23)	Share premium RMB'000 (Note 23)	Other reserves RMB'000 (Note 24)	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2017	211,050	168,472	55,254	349,608	784,384
Comprehensive income					
— Profit for the year	—	—	—	115,839	115,839
Total comprehensive income	—	—	—	115,839	115,839
Transfer to statutory reserve	—	—	12,002	(12,002)	—
Utilisation of safety reserve	—	—	(3,718)	3,718	—
Balance at 31 December 2017	211,050	168,472	63,538	457,163	900,223
Balance at 1 January 2018	**211,050**	**168,472**	**63,538**	**457,163**	**900,223**
Comprehensive income					
— Profit for the year	**—**	**—**	**—**	**130,713**	**130,713**
Total comprehensive income	**—**	**—**	**—**	**130,713**	**130,713**
Issuance of ordinary shares (Note 23)	**10,000**	**52,135**	**—**	**—**	**62,135**
Share issuance costs (Note 23)	**—**	**(2,009)**	**—**	**—**	**(2,009)**
Transfer to statutory reserve	**—**	**—**	**13,014**	**(13,014)**	**—**
Transfer of safety reserve	**—**	**—**	**896**	**(896)**	**—**
Dividends for the year ended 31 December 2017	**—**	**—**	**—**	**(6,332)**	**(6,332)**
Balance at 31 December 2018	**221,050**	**218,598**	**77,448**	**567,634**	**1,084,730**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	27	**19,699**	(344,837)
PRC enterprise income tax paid		**(17,895)**	(21,767)
Net cash inflow/(outflow) from operating activities		**1,804**	(366,604)
Cash flows from investing activities			
Purchases of property and equipment		**(1,023)**	(10,188)
Purchase of intangible assets		**(3,727)**	(1,590)
Interest received		**2,442**	929
Net cash outflow from investing activities		**(2,308)**	(10,849)
Cash flows from financing activities			
Proceeds from the issuance of ordinary shares		**62,135**	—
Payment of share issuance costs		**(2,009)**	—
Dividends paid to company's shareholders		**(6,332)**	—
Proceeds from borrowings		**564,316**	766,226
Repayments of borrowings		**(755,944)**	(355,226)
Interest paid		**(39,318)**	(27,974)
Deposits for share subscription		**78,000**	
Payment for listing expenses		**(1,537)**	(9,255)
Net cash (outflow)/inflow from financing activities		**(100,689)**	373,771
Net decrease in cash and cash equivalents		**(101,193)**	(3,682)
Cash and cash equivalents at beginning of the year		**281,750**	287,613
Exchange losses on cash and cash equivalents		**(498)**	(2,181)
Cash and cash equivalents at end of the year	21	**180,059**	281,750

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. GENERAL INFORMATION

Guangdong Adway Construction (Group) Holdings Company Limited (the "Company") was incorporated in the People's Republic of China (the "PRC") on 18 December 1996. On 3 December 2007, the Company was converted into a joint stock company with limited liability with registered capital of RMB30,800,000. Subsequently, with a series of capital injection in cash and share premium transferred as capital, registered capital of the Company was increased to RMB158,287,000.

The Company's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 25 November 2016 with the total share capital increased to RMB211,050,000. The Company issued additional 10,000,000 H shares on November 2018, and the total share capital increased to RMB221,050,000.

The principal place of business of the Company is 3rd Floor, Pengyi Garden Building 1, Bagua No.1 Road, Futian District, Shenzhen, the PRC.

The Company and its subsidiaries (together the "Group") are principally engaged in provision of interior and exterior building decoration and design services in the PRC.

Mr. Ye Yujing ("Mr. Ye") and Mrs. Ye Xiujin ("Ms. Ye"), the wife of Mr. Ye, have been the controlling shareholders of the Group since its establishment.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. Except for the new and amended standards as disclosed below, the policies have been consistently applied to all the years presented.

2.1 Basis of preparation

(i) Compliance with Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Companies Ordinance (Cap. 622)

The consolidated financial statements of the Group have been prepared in accordance with all applicable HKFRS and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

(ii) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention.

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing on 1 January 2018:

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
HK(IFRIC) 22	Foreign currency transactions and advance consideration
Amendments to HKAS 40	Transfers of investment property

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(iii) New and amended standards adopted by the Group (Continued)

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards, amendments to standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations have been published but are not mandatory for 31 December 2018 reporting period and have not been early adopted by the Group.

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019
HK(IFRIC) 23	Uncertainty over income tax treatments	1 January 2019
Amendments to HKFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to HKAS 28	Long-term interests in associates and joint ventures	1 January 2019
Amendments to HKAS 19	Plan amendment, curtailment or settlement	1 January 2019
Annual Improvements to HKFRS Standards 2015–2017 Cycle	Improvements to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

None of these is expected to be relevant or have material impact to the consolidated financial statements of the Group. The Group's detailed assessment on the impact of adoption of HKFRS 16 is as follows:

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

As at the reporting date, the Group has no non-cancellable operating lease commitments. The standard will not have significant impact on the accounting for the Group's operating leases.

Date of adoption by the Group

HKFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

(i) Adoption of HKFRS 9

HKFRS 9 addresses the recognition, classification and measurement of financial assets and financial liabilities, and derecognition of financial instruments, introduces new rules for hedge accounting and a new impairment model for financial assets.

Classification and measurement

The Group has reviewed its classification of financial assets and liabilities and has not identified any significant change on classification from the adoption of the new standard on 1 January 2018.

Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses associated with the probability of default. The Group's trade receivables, contract assets relating to construction contracts and other receivables are subject to new expected credit losses model under HKFRS 9. While cash and cash equivalents are also subject to the impairment requirements under HKFRS 9, the identified impairment loss was immaterial. The Group is required to revise its impairment methodology under HKFRS 9 for these classes of financial assets.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

The Group has assessed the impact of expected credit losses on trade receivables, contract assets and other receivables and concluded that the impact is insignificant as at 1 January 2018. Note 3.1.2 provides details about the Group's expected credit loss model.

Adjustments were made to line item in the statement of comprehensive income for the year ended 31 December 2017 as required by HKAS 1 Presentation of Financial Statements to comply with the requirement in HKFRS 9. Impairment losses of RMB18,401,000 which were previously recognised as administrative expenses for the year ended 31 December 2017 were reclassified as net impairment losses on financial and contract assets.

(ii) Adoption of HKFRS 15

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in Note 2.23. By using the modified retrospective approach in accordance with the transition provisions in HKFRS 15, the comparative figures have not been restated by the Group.

HKFRS 15 replaces the provisions of HKAS 18 Revenue and HKAS 11 Construction contracts that relate to the recognition, classification and measurement of revenue and costs.

The Group has assessed its performance obligations and timing of revenue recognition under HKFRS 15 and has concluded that there is no significant impact of HKFRS 15 on revenue recognition as at 1 January 2018, except for the certain reclassification of assets and liabilities as disclosed below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

(ii) Adoption of HKFRS 15 *(Continued)*

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15:

- Contract assets for unbilled work in progress in relation to construction contracts were previously presented as amounts due from customers for contract work.
- Contract liabilities for advances from customers in relation to construction contracts were previously included in trade and other payables.
- Contract liabilities for cumulative progress billing to customers over the cumulative work in progress in relation to construction contracts were previously presented as amounts due to customers for contract work.

The impact on the Group's financial position by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that was previously in effect before the adoption of HKFRS 15 is as follows:

Consolidated statement of financial position (extract)	31 December 2017 As originally presented RMB'000	Reclassifications under HKFRS 15 RMB'000	1 January 2018 As restated RMB'000
Contract assets	—	1,255,340	1,255,340
Amounts due from customers for contract work	1,255,340	(1,255,340)	—
Contract liabilities	—	96,065	96,065
Amounts due to customers for contract work	42,954	(42,954)	—
Trade and other payables	438,481	(53,111)	385,370

2.3 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.6 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

2.7 Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	30 years
Building improvements	5 years
Machinery	10 years
Motor vehicles	5 years
Furniture and office equipment	5 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Property and equipment *(Continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and included in profit or loss.

2.8 Investment properties

Investment properties, principally comprising buildings, is held for long-term rental yields and is not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. The Group adopts the cost model for subsequent measurement of investment properties. Buildings are depreciated to their estimated net residual values over their estimated useful lives. The estimated useful lives, the estimated net residual values that are expressed as a percentage of cost and the annual depreciation rates of investment properties are as follows:

Buildings	30 years

The carrying amount of investment properties shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount.

2.9 Lease prepayments

Lease prepayments represent upfront prepayment made for the land use rights and are expensed in the consolidated income statements on a straight-line basis over the period of the lease which is 39 years. Lease prepayments are carried at cost less accumulated amortisation and impairment losses.

2.10 Intangible assets

Acquired computer software are capitalised on the basis of costs incurred to acquire and bring to use the specific software.

The Group amortises intangible assets with a limited useful life of 3 to 5 years using the straight-line method.

2.11 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

2.12 Investments and other financial assets

(i) Classification

The Group classifies its financial assets only in the category of assets to be measured at amortised cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Investments and other financial assets *(Continued)*

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The only measurement category into which the Group classifies its debt instruments is at amortised cost. Under this category, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

(iv) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 3.1.2 for further details.

(v) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, the Group only has financial assets in the category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the group company or the counterparty.

2.14 Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 2.12 for further information about the Group's accounting for trade receivables and for a description of the Group's impairment policies.

2.15 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash in hand and at bank. Bank deposits which are restricted to use are included in "Restricted cash". Restricted cash are excluding from cash and cash equivalents included in the consolidated statements of cash flows.

2.16 Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade payables are classified as current liabilities unless payment is not due within 12 months after the reporting period.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) Pension obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The Group's contributions to these plans are expensed as incurred.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits.

(iv) Housing funds, medical insurances and other social insurances

Employees of the group companies in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year.

(v) Bonus entitlements

The expected cost of bonus payments are recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property and equipment are included in non-current liabilities as deferred revenue and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Revenue recognition

Revenues are recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- Provides all of the benefits received and consumed simultaneously by the customer; or
- Creates and enhances an asset that the customer controls as the Group performs; or
- Do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

When control of goods and services is transferred over time, the progress towards complete satisfaction of performance obligation is measured based on one of the following methods that best depicts the Group's performance in satisfying the performance obligation:

- Direct measurements of the value of individual services transferred by the Group to the customer (output method); or
- The Group's efforts or inputs to the satisfaction of the performance obligation (input method).

(i) Construction contracts

The Group generates revenue by providing interior and exterior building decoration and design services under construction contracts. The Group determines that revenue from construction contracts satisfies the performance obligation over time, for the performance of construction contracts creates or enhances an asset that the customer controls as the asset is created or enhanced. The Group recognises revenue over time based on the percentage of completion, using input method as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs in accordance with HKFRS 15.

The excess of cumulative revenue recognised over the cumulative billings to customers is recognised as contract assets. The excess of cumulative billings to customers over the cumulative revenue recognised is recognised as contract liabilities.

Upon the completion of construction work, normally 5% to 10% of the contract price will be retained by customers as quality guarantee and will be refunded after one or two year's warranty period. The Group does not intend to give a financing to the customer through retention. The Group makes efforts to collect such retention and timely monitor the credit risk.

There is no material contract fulfilment cost or cost of obtaining contracts incurred by the Group.

(ii) Rendering of services

The Group provides design services to external parties. Design fee is recognised as revenue in the accounting period in which the services are rendered, by reference to the amount provided in the service period stipulated in the contract.

(iii) Sales of goods

Sales of goods are recognised when the Group has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Group, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.25 Interest income

Interest income on financial assets at amortised cost which calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.26 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases.

The Group is the lessee

Payments made under operating leases (net of any incentives received from the lessor), are charged to the profit or loss on a straight-line basis over the period of the lease.

The Group is the lessor

When assets are leased out under an operating lease, the assets are included in the consolidated statements of financial position based on the nature of the assets. Lease income is recognised in the profit or loss on a straight-line basis over the period of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Research and development

Research expenditures are recognised as expenses or cost of sales as incurred. Costs incurred on development projects (relating to the design and developing of new or improved utility models and utility patents) are recognised as intangible assets if, and only if, the Group can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development expenditures that do not meet these criteria are recognised as expenses or cost of sales when incurred. Development costs previously recognised as expenses or cost of sales are not recognised as an asset in a subsequent period.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the financial department under policies approved by the board of directors.

3.1.1 Market risk

(i) Foreign exchange risk

The Group operates in the PRC with most transactions being settled in RMB, which is the functional currency of the group companies. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities of the group company that are denominated in a currency that is not the entity's functional currency, primarily with respect to Hong Kong dollars ("HKD"). The Group currently does not have a foreign currency hedging policy and manages its foreign currency risk by closely monitor the movement of the foreign currency rates.

At 31 December 2018, if RMB had weakened/strengthened by 5% against the HKD, while all other variables had been held constant, the Company's post-tax profit for the year would have been approximately RMB62,000 higher/lower (2017: RMB277,000 higher/lower) as a result of net foreign exchange gains/losses in HKD denominated cash at bank.

(ii) Interest rate risk

The Group's interest rate risk mainly arises from borrowings. The Group regularly seeks the most favourable interest rates available for borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Information relating to the interest rates and terms of the Group's borrowings are disclosed in Note 26. As at 31 December 2018, if the market interest rates had been 0.5% higher with all other variables held constant, post-tax profit for the year would have been RMB2,108,000 lower (2017: RMB2,554,000 lower), mainly as a result of higher interest expense on borrowings. The directors consider the interest rate risk related to cash at bank is not material to the Group.

The Group has not entered into any interest rate swaps to hedge its exposure to interest rate risks.

3.1.2 Credit risk

Credit risk arises from cash and cash equivalents, trade receivables, contract assets and deposits and retention receivables recorded as other receivables.

The carrying amount of these balances in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial and contract assets. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk *(Continued)*

(i) Risk management

Majority of the Group's cash and cash equivalents are placed in those banks incorporated in the PRC which are reputable local listed commercial banks or state-owned banks. Management does not expect any losses from non-performance by these banks as they have no default history in the past.

In respect of trade receivables, contract assets and deposits and retention receivables, which related to the construction customers, periodical credit evaluations are performed taking into account the customers' financial position, past experience and other factors. Credit limits are also set based on internal risk assessment results for individual customer. The Group generally requires customers to settle progress billings in accordance with contracted terms and other debts in accordance with agreements. Normally, the Group does not obtain collateral from customers.

(ii) Impairment of financial assets

The Group has three types of assets that are subject to the expected credit loss model:

- Trade receivables,
- Contract assets relating to construction contracts, and
- Deposits and retention receivables relating to construction contracts recorded as other receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses of trade receivables and contract assets, individual credit evaluation on significant customers is performed by management. These evaluation focused on the customer payment history and current and future ability for payment taking into account the information specific to the customer as well as pertaining to the current and future general economic environment in which the customer operated.

For those not subject to individual credit evaluation or individually assessed as not impaired, management collectively assessed the expected credit losses taking into account the ageing analysis and the history of bad debt losses in respect of those groups of customers. The historical loss rates are adjusted to reflect current and forward-looking information affecting the ability of the customers and debtors to settle the receivables.

Impairment on deposits and retention receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

For other receivables, the Group makes periodic collective assessments as well as individual assessment on the recoverability based on past experience and forward-looking information.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk (Continued)

The closing loss allowances for trade receivables, contract assets and other receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Trade receivables RMB'000	Contract assets RMB'000	Other receivables RMB'000
At 1 January 2018	**49,772**	**90,053**	**15,623**
Provision for impairment	**7,695**	**9,693**	**5,807**
Written off	**(286)**	**—**	**(2,373)**
Reversal of provision	**(181)**	**(160)**	**(2,728)**
At 31 December 2018	**57,000**	**99,586**	**16,329**

The closing loss allowances for trade receivables, contract assets and other receivables as at 31 December 2017 reconcile to the opening loss allowances as follows:

	Trade receivables RMB'000	Contract assets RMB'000	Other receivables RMB'000
At 1 January 2017	44,809	74,705	19,092
Provision for impairment	15,330	15,348	3,875
Written off	(1,559)	—	—
Reversal of provision	(8,808)	—	(7,344)
At 31 December 2017	49,772	90,053	15,623

Trade receivables, contract assets and other receivables are written off when there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are credited into profit or loss.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

3.1.3 Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet their liquidity requirements in the short and longer term.

Management devotes to tighten its credit terms to customers and fasten its collection of debtors by available means in order to maintain sufficient cash to meet the obligations. Moreover, the Group continues to explore its available funding through different financial facilities to maintain sufficient flexibility in funding as well. The Group closely monitors its policies to maintain sufficient cash flows and ensure they are effective. Management considers that there is no significant liquidity risk as the Group has sufficient committed facilities to fund their operations.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.3 Liquidity risk *(Continued)*

The table below analyses the Group's non-derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the consolidated balance sheets date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year RMB'000
As at 31 December 2018	
Borrowings	**506,530**
Trade and other payables	**777,040**
	1,283,570
As at 31 December 2017	
Borrowings	740,546
Trade and other payables	315,875
	1,056,421

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

During the years ended 31 December 2018 and 2017, the Group's strategy was to maintain the gearing ratio at a reasonable level. The gearing ratios at 31 December 2018 and 2017 were as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Total borrowings (Note 26)	**496,021**	721,000
Less: cash and cash equivalents (Note 21)	**(180,059)**	(281,750)
Net debt	**315,962**	439,250
Total equity	**1,084,730**	900,223
Total capital	**1,400,692**	1,339,473
Gearing ratio	**23%**	33%

The Group has complied with the loan covenants throughout the reporting period.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

The Group's financial assets and financial liabilities are mainly receivables and payables, respectively, which are carried at amortised cost. The fair values of these financial instruments approximate their carrying amounts.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Recognition of revenue

The Group recognises the revenue over time based on the percentage of completion, using input methods in accordance with HKFRS 15. The percentage of completion is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budgeted cost. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting period. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses and regularly reviews the progress of the contracts.

(b) Impairment of trade receivables and contract assets

The expected credit losses for trade receivables and contract assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's assessment on customer payment history and current and future ability for payment taking into account the information specific to the customer as well as pertaining to the current and future general economic environment in which the customer operated. Details of management's credit risk assessment are disclosed in the tables in Note 3.1.2.

(c) Income taxes and deferred taxation

The Group is subject to income taxes in the PRC. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

The Group is principally engaged in provision of interior and exterior building decoration and design services in the PRC. Management reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the board of directors of the Company regards that there is only one segment which is used to make strategic decisions. Revenue and profit before income tax are the measures reported to the executive directors for the purpose of resources allocation and performance assessment.

All of the operating entities of the Group are domiciled in the PRC. Accordingly, all of the Group's revenue is derived in the PRC during the years ended 31 December 2018 (2017: same).

As at 31 December 2018, all of the non-current assets were located in the PRC (2017: same).

(a) Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	As at 31 December	
	2018 RMB'000	2017* RMB'000
Contract assets relating to construction contracts	**1,681,343**	1,345,393
Loss allowance (Note 3.1.2)	**(99,586)**	(90,053)
Total contract assets	**1,581,757**	1,255,340
Contract liabilities relating to construction contracts	**(107,856)**	(96,065)

* The amounts were reclassified under HKFRS 9. Please see Note 2.2 for detailed explanation.

Significant changes in contract assets and liabilities

Contract assets have increased as the Group has provided more services ahead of billing for certain construction contracts. The Group also recognised a loss allowance for contracts assets following the adoption of HKFRS 9, see Note 3.1.2 for further information.

Contract liabilities represented the billing progress in excess of the construction works performed and the advance payment made by customers. No significant change was noted by management.

Revenue recognised in relation to contract liabilities

Revenue recognised in the current reporting period which related to carried-forward contract liabilities was RMB23,351,000.

6 REVENUE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue from construction contracts	**1,759,227**	1,615,036
Sales of goods	**54,690**	33,549
Design and other income	**16,866**	24,173
Total	**1,830,783**	1,672,758

No customer individually accounted for more than 10% of the Group's revenue during the year ended 31 December 2018 (2017: one customer accounted for 17%).

7 EXPENSES BY NATURE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Raw materials and consumables used	**878,865**	897,152
Remuneration paid or payable to work forces engaged by the Group	**633,832**	501,262
Trading merchandise consumed	**49,200**	32,325
Staff costs (including directors' emoluments) (Note 8)	**33,363**	27,642
Depreciation and amortisation expenses	**11,840**	9,365
Other taxes	**6,462**	7,598
Consulting and professional fee	**2,991**	3,537
Advertising fee	**2,595**	3,276
Auditor's remuneration	**2,380**	2,380
Entertainment expenses	**2,311**	1,199
Travelling expenses	**1,690**	1,264
Insurance fee	**733**	918
Miscellaneous	**4,114**	4,675
Total cost of sales, selling and marketing expenses and administrative expenses	**1,630,376**	1,492,593

Research and development expenses during the year ended 31 December 2018 were RMB70,634,000 (2017: RMB61,897,000), which mainly included materials consumed and related staff costs. No research and development expenses had been capitalised for the year ended 31 December 2018 (2017: nil).

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Salaries, wages and bonuses	**28,407**	24,325
Housing funds, medical insurances and other social insurances	**1,882**	1,302
Pension costs — defined contribution plans	**2,027**	1,403
Other welfare and allowance	**1,047**	612
	33,363	27,642

(a) Directors', supervisors' and chief executive's emoluments

The remuneration of each director, supervisor and chief executive for the year ended 31 December 2018 is set out below:

Name	Fees RMB'000	Salaries and other benefits RMB'000	Contribution to pension scheme RMB'000	Total RMB'000
Executive directors				
Mr. Ye (i)	—	672	40	712
Mr. Liu Yilun	—	410	40	450
Mr. Ye Niangting	—	380	40	420
Mr. Ye Guofeng	—	361	38	399
Ms. Ye	—	134	—	134
Non-executive director				
Mr. Tian Wen	80	—	—	80
Independent non-executive directors				
Mr. Lin Zhiyang	80	—	—	80
Mr. Tang Wai Man, Raymond (ii)	51	—	—	51
Mr. Wang Zhaowen	80	—	—	80
Mr. Cheung Wai Yeung, Michael (ii)	30	—	—	30
Supervisors				
Mr. Wu Hanguang (ii)	—	59	7	66
Mr. Ye Xian	—	84	10	94
Mr. Zu Li (iii)	—	—	—	—
Mr. Ye Weizhou (ii)	—	50	6	56
	321	2,150	181	2,652

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(a) Directors', supervisors' and chief executive's emoluments *(Continued)*

The remuneration of each director, supervisor and chief executive for the year ended 31 December 2017 is set out below:

Name	Fees RMB'000	Salaries and other benefits RMB'000	Contribution to pension scheme RMB'000	Total RMB'000
Executive directors				
Mr. Ye (i)	—	638	34	672
Mr. Liu Yilun	—	396	34	430
Mr. Ye Niangting	—	358	34	392
Mr. Ye Guofeng	—	270	34	304
Ms. Ye	—	122	1	123
Non-executive director				
Mr. Tian Wen	80	—	—	80
Independent non-executive directors				
Mr. Fung Yat Sang	40	—	—	40
Mr. Lin Zhiyang	80	—	—	80
Mr. Tang Wai Man, Raymond	47	—	—	47
Mr. Wang Zhaowen	47	—	—	47
Supervisors				
Mr. Wu Hanguang	—	126	15	141
Mr. Zu Li (iii)	—	—	—	—
Mr. Ye Xian	—	63	6	69
	294	1,973	158	2,425

(i) Mr. Ye is also the chief executive of the Company.

(ii) On 8 June 2018, Mr. Wu Hanguang, supervisor, resigned and Mr. Ye Weizhou was appointed as supervisor accordingly. On 20 August 2018, Mr. Tang Wai Man, Raymond, independent non-executive director, resigned and Mr. Cheung Wai Yeung, Michael, was appointed as independent non-executive director accordingly.

(iii) During the year ended at 31 December 2018, Mr. Zu Li, supervisor of the Company waived his fees as for supervisor (2017: same).

(iv) The aggregate emoluments paid to or receivable by directors in respect of their services as directors of the company for the year ended 31 December 2018 were RMB321,000(2017: RMB294,000). The aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the company for the year ended 31 December 2018 were RMB2,115,000 (2017: RMB1,921,000).

During the year, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2017: same). No consideration was provided to or receivable by third parties for making available directors' services (2017: same). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2017: same).

No director of the Company and their connected entities had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year (2017: same).

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(b) Five highest paid individuals

For the year ended 31 December 2018, the five individuals whose emoluments were the highest in the Group included four directors (2017: four), whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining individual during the years ended 31 December 2018 and 2017, are as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Salaries and other benefits	**243**	244
Contribution to pension scheme	**31**	31
	274	275

The emoluments of the remaining individual of the Group fell within the following band:

	Year ended 31 December	
	2018	2017
Emolument bands		
Nil to HKD1,000,000	**1**	1

9 OTHER INCOME — NET

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Government grants (a)	**6,128**	4,609
Rental income from investment properties	**90**	90
Others	**288**	680
	6,506	5,379
Outgoings related to rental income	**(18)**	(18)
	6,488	5,361

(a) Government grants are under no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

10 FINANCE COSTS — NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Finance income		
— Interest income derived from bank deposits	**2,442**	929
Finance costs		
— Interest expenses on borrowings	**(37,181)**	(28,578)
— Expense for factoring arrangement	**(2,515)**	—
— Net foreign exchange losses	**(498)**	(2,181)
	(40,194)	(30,759)
	(37,752)	(29,830)

11 INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current income tax		
— PRC enterprise income tax	**21,102**	23,952
Deferred income tax (Note 18)	**(2,798)**	(2,496)
	18,304	21,456

Current taxation primarily represented the provision for PRC Enterprise Income Tax ("EIT") for companies operating in the PRC. These companies are subject to EIT on their taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant tax laws and regulations in the PRC.

Pursuant to the PRC Enterprise Income Tax Law ("EIT Law"), the EIT rate for domestic enterprises and foreign invested enterprises is 25%. On 15 November 2016, the Company renewed the High and New Technology Enterprise Certificate which is effective for three years commencing on 1 January 2016. The applicable income tax rate is 15% for the years from 2016 to 2018. Assuming that there is no change to the relevant laws and regulations, the directors consider that the Company will continue to be granted the preferential tax treatment through an application of renewal, and accordingly, tax rate of 15% has been applied when considering the deferred income tax. All the other PRC entities of the Group are subject to EIT at a rate of 25% (2017: 25%) in accordance with EIT Law.

11 INCOME TAX EXPENSE *(Continued)*

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profit of the consolidated entities as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**149,017**	137,295
Calculated at applicable tax rate	**22,317**	20,544
Expenses not deductible for tax purposes	**539**	786
Unrecognised temporary difference	**90**	126
Additional deduction on research and development expenses (a)	**(4,642)**	—
	18,304	21,456

(a) During the year ended 31 December 2018, the Company prepared and submitted related documents for the application of additional deduction on research and development expenses to in-charge tax authority according to EIT Law and utilised such tax deduction on its yearly income tax settlement.

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2018 and 2017.

	Year ended 31 December	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	**130,713**	115,839
Weighted average number of ordinary shares in issue (thousand shares)	**211,899**	211,050
Basic earnings per share (RMB)	**61.69 cents**	54.89 cents

The Company did not have any potential ordinary shares outstanding during the years ended 31 December 2018. Diluted earnings per share for the year ended 31 December 2018 are the same as the basic earnings per share (2017: same).

13 DIVIDENDS

A final dividend in respect of the year ended 31 December 2017 of RMB0.03 per share, totalling RMB6,332,000, was approved by the shareholders at the annual general meeting on 8 June 2018 and was paid to shareholders in August 2018 (No dividend in respect of the year ended 31 December 2016 was recommended by the board of directors).

The board of directors did not recommend the payment of any final dividend in respect of the year ended 31 December 2018.

14 SUBSIDIARIES

Subsidiaries of the Group as at 31 December 2018 are set out as below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name	Type of legal status	Place of incorporation/ establishment	Principal activities and place of operation	Registered/ paid up capital	Proportion of ordinary shares directly held by the Company
Jingdi Industrial (Shenzhen) Company Limited (景帝實業(深圳)有限公司)	Limited liability company	Shenzhen, the PRC	Industrial and commercial investments (specific programs to be separately applied for); supply chain management; export and import trade; the PRC	RMB10,100,000	100%
Huidong Yip's Development Limited Company (惠東葉氏實業發展有限公司)	Limited liability company	Huizhou, the PRC	Development and construction of industrial park; the PRC	RMB500,000	100%
Huidong Shikuan Decorative Furniture Creative Culture Company Limited (惠東士寬裝飾傢私創藝文化有限公司)	Limited liability company	Huizhou, the PRC	Design and sale of mobile and fixed furniture suitable for the use of construction decoration works, soft decoration product; the PRC	RMB500,000	100%
Adway Constructional Engineering Design (Shenzhen) Company Limited (愛得威建築工程設計(深圳)有限公司)	Limited liability company	Shenzhen, the PRC	Design of decoration projects and related whole industry chain integrated services; the PRC	RMB10,000,000	100%
Adway Construction (Hong Kong) Limited (愛得威建設(香港)有限公司)	Limited liability company	Hong Kong	Building decoration, construction material import and export; Hong Kong	HKD10,000	100%

15 PROPERTY AND EQUIPMENT

	Buildings	Building improvements	Machinery	Motor vehicles	Furniture and office equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017						
Cost	75,053	25,128	31	7,000	5,426	112,638
Accumulated depreciation	(8,546)	(15,861)	(31)	(4,898)	(3,832)	(33,168)
Closing net book amount	66,507	9,267	—	2,102	1,594	79,470
Year ended 31 December 2017						
Opening net book amount	66,507	9,267	—	2,102	1,594	79,470
Additions	4,515	—	—	6,864	1,416	12,795
Depreciation	(2,390)	(5,026)	—	(660)	(1,003)	(9,079)
Closing net book amount	68,632	4,241	—	8,306	2,007	83,186
At 31 December 2017						
Cost	79,568	25,128	31	13,864	6,842	125,433
Accumulated depreciation	(10,936)	(20,887)	(31)	(5,558)	(4,835)	(42,247)
Net book amount	68,632	4,241	—	8,306	2,007	83,186
Year ended 31 December 2018						
Opening net book amount	**68,632**	**4,241**	—	**8,306**	**2,007**	**83,186**
Additions	—	—	—	**655**	**368**	**1,023**
Depreciation	**(2,545)**	**(4,241)**	—	**(1,806)**	**(1,190)**	**(9,782)**
Closing net book amount	**66,087**	—	—	**7,155**	**1,185**	**74,427**
At 31 December 2018						
Cost	**79,568**	**25,128**	**31**	**14,519**	**7,140**	**126,386**
Accumulated depreciation	**(13,481)**	**(25,128)**	**(31)**	**(7,364)**	**(5,955)**	**(51,959)**
Net book amount	**66,087**	—	—	**7,155**	**1,185**	**74,427**

Depreciation of the property and equipment has been charged to profit or loss as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Selling and marketing expenses	**184**	14
Administrative expenses	**9,598**	9,065
	9,782	9,079

16 LEASE PREPAYMENTS — LAND USE RIGHTS

The balance represented prepaid operating lease payment for one piece of land located in the PRC for a lease term of 39 years. The movements are as follows:

	Leasehold land RMB'000
At 1 January 2017	
Cost	11,242
Accumulated amortisation	(1,024)
Net book amount	10,218
Year ended 31 December 2017	
Opening net book amount	10,218
Amortisation	(286)
Closing net book amount	9,932
At 31 December 2017	
Cost	11,242
Accumulated amortisation	(1,310)
Net book amount	9,932
Year ended 31 December 2018	
Opening net book amount	**9,932**
Amortisation	**(286)**
Closing net book amount	**9,646**
At 31 December 2018	
Cost	**11,242**
Accumulated amortisation	**(1,596)**
Net book amount	**9,646**

Amortisation charges were expensed in the following category in the consolidated statements of comprehensive income.

	Year ended 31 December	
	2018 **RMB'000**	2017 RMB'000
Administrative expenses	**286**	286

17 INTANGIBLE ASSETS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At 1 January		
Cost	**5,299**	—
Accumulated depreciation	**—**	—
Net book amount	**5,299**	—
For the year		
Opening net book amount	**5,299**	—
Addition	**18**	5,299
Depreciation	**(1,772)**	—
Closing net book amount	**3,545**	5,299
At 31 December		
Cost	**5,317**	5,299
Accumulated depreciation	**(1,772)**	—
Net book amount	**3,545**	5,299

Amortisation charges were expensed in the following category in the consolidated statements of comprehensive income.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Administrative expenses	**1,772**	—

18 DEFERRED INCOME TAX ASSETS

(a) The analysis of deferred income tax assets is as follows:

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Deferred income tax assets		
— to be recovered after more than 12 months	**25,406**	23,178
— to be recovered within 12 months	**1,570**	1,000
	26,976	24,178

The gross movements on the deferred income tax assets are as follows:

	Year ended 31 December	
	2018 **RMB'000**	2017 RMB'000
At 1 January	**24,178**	21,682
Tax credited to the consolidated statement of comprehensive income	**2,798**	2,496
At 31 December	**26,976**	24,178

(b) The movements in deferred income tax assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Provisions RMB'000	**Deferred revenue** RMB'000	**Accruals** RMB'000	**Total** RMB'000
At 1 January 2017	20,791	277	614	21,682
Tax credited/(charged) to the consolidated statement of comprehensive income	2,526	(11)	(19)	2,496
At 31 December 2017	23,317	266	595	24,178
Tax credited/(charged) to the consolidated statement of comprehensive income	2,620	(11)	189	2,798
At 31 December 2018	**25,937**	**255**	**784**	**26,976**

18 DEFERRED INCOME TAX ASSETS *(Continued)*

(c) Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The tax losses with no deferred tax assets recognised carried forward are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Year of expiry of tax losses		
2019	**340**	340
2020	**1,401**	1,401
2021	**567**	567
2022	**504**	504
2023	**360**	—
	3,172	2,812

19 TRADE RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade receivables	**624,025**	379,474
Less: provision for impairment of trade receivables	**(57,000)**	(49,772)
Trade receivables — net	**567,025**	329,702
Notes receivable (d)	**22,062**	27,448
	589,087	357,150

(a) Ageing analysis of trade receivables based on invoice date is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 6 months	**342,481**	184,068
6 months to 1 year	**76,777**	52,449
1 year to 2 years	**82,616**	82,367
2 years to 3 years	**64,806**	31,213
Over 3 years	**57,345**	29,377
	624,025	379,474

Majority of the Group's revenues are generated through construction contracts with the credit terms of 15 days according to terms specified in the contracts governing the relevant transactions.

19 TRADE RECEIVABLES *(Continued)*

(b) Past due but not impaired

Due to the short credit period granted by the Group to its customers, substantially all trade receivables as at 31 December 2018 were considered as past due from accounting perspective. The amounts that were past due but not impaired related to certain independent customers who have strong financial ability with low credit risk, and historically and subsequently, there was rare default for these receivable. The ageing analysis of the Group's trade receivables which are past due but not impaired is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 6 months	**342,481**	184,068
6 months to 1 year	**76,777**	52,449
1 year to 2 years	**66,688**	62,961
2 years to 3 years	**50,075**	5,106
Over 3 years	**4,179**	2,179
	540,200	306,763

(c) As at 31 December 2018, trade receivables of the Group amounted to RMB47,063,000 (2017: RMB44,143,000) were individually assessed and provided with full impairments of RMB47,063,000 (2017: RMB44,143,000). The individually impaired trade receivables mainly relate to customers that were in financial difficulties or customers that were in default or delinquency in payments. The directors are of the opinion that the receivables is not expected to be recovered.

(d) As at 31 December 2018, notes receivable of the Group were mainly commercial acceptance notes, with due period less than 12 months (2017: same).

(e) Notes receivable of RMB16,021,000 are subject to a factoring arrangement. Under this arrangement, the Group has transferred the relevant notes receivable to the factor in exchange for cash and is prevented from selling or pledging the notes receivable. However, the Group has retained late payment and credit risk. The Group therefore continues to recognise the transferred assets in their entirety in its statement of financial position. The amount repayable under the factoring agreement is presented as secured borrowing (Note 26). The Group considers the held to collect business model to remain appropriate for these notes receivable and hence continues measuring them at amortised cost.

(f) The carrying amounts of trade receivables and notes receivable approximate their fair values due to their short term maturities. The Group's trade receivables and notes receivable are denominated in RMB.

20 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Prepayments	**65,389**	23,653
Deposits (a)	**41,980**	52,731
Retention receivables (a)	**26,676**	22,538
Other receivables (b)	**4,009**	1,091
	138,054	100,013
Less: non-current portion		
Deposits	**(6,591)**	(10,588)
Retention receivables	**(14,350)**	(14,990)
	(20,941)	(25,578)
	117,113	74,435

(a) Deposits represented tender and performance deposits due from customers. Retention receivables represented amounts due from customers upon completion of the construction work which will be refunded after one or two years by the end of the free maintenance period. All of the deposits and retention receivables are dominated in RMB.

(b) The carrying amounts of other receivables approximate their fair values due to their short term maturities. The Group's other receivables are denominated in RMB.

21 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Denominated in RMB		
— Cash at bank	**178,593**	275,197
— Cash on hand	**18**	30
	178,611	275,227
Denominated in HKD		
— Cash at bank	**1,448**	6,523
Total	**180,059**	281,750

22 RESTRICTED CASH

As at 31 December 2018, restricted cash were mainly bank deposits for insurance of bank acceptance notes and restricted deposits to protect the construction workers engaged by the Group in respect of certain projects (As at 31 December 2017, restricted cash were restricted deposits to protect the construction workers).

23 SHARE CAPITAL AND SHARE PREMIUM

	Number of Shares ('000)	Share Capital RMB'000	Share Premium RMB'000	Total RMB'000
Issued and fully paid:				
At 1 January 2017 and 31 December 2017	211,050	211,050	168,472	379,522
Issuance of ordinary shares (a)	10,000	10,000	52,135	62,135
Share issuance costs	—	—	(2,009)	(2,009)
At 31 December 2018	221,050	221,050	218,598	439,648

(a) On 30 November 2018, 10,000,000 H shares of RMB1.00 each were issued by the Company at a price of HKD7.00 per share for a total cash consideration of HKD70,000,000 (equivalent to RMB62,135,000) before share issuance costs of RMB2,009,000.

24 OTHER RESERVES

	Statutory reserve RMB'000	Safety reserve RMB'000	Capital reserve RMB'000	Total RMB'000
At 1 January 2017	50,443	3,718	1,093	55,254
Transfer to statutory reserve	12,002	—	—	12,002
Utilisation of safety reserve	—	(3,718)	—	(3,718)
At 31 December 2017	62,445	—	1,093	63,538
At 1 January 2018	62,445	—	1,093	63,538
Transfer to statutory reserve	13,014	—	—	13,014
Transfer to safety reserve	—	896	—	896
At 31 December 2018	75,459	896	1,093	77,448

(a) Statutory reserve

In accordance with relevant rules and regulations in the PRC and the Company's Articles of Association, the company is required to transfer no less than 10% of their profit after taxation calculated under PRC accounting standards and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' losses or to increase the capital of respective companies.

(b) Safety reserve

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, the Group is required to set aside an amount to a safety reserve at different rates ranging from 1.5% to 2% of the total construction contract revenue recognised for the years ended 31 December 2018 and 2017. The reserve can be utilised for improvements of safety on the construction work, and the amounts are generally expenses in nature and charged to the consolidated income statement as incurred.

25 TRADE AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade payables (a)	**676,356**	302,061
Notes payable	**14,000**	—
	690,356	302,061
Other tax payable	**116,347**	57,578
Deposits for share subscription to be refunded (b)	**78,000**	—
Payroll payable	**10,589**	11,917
Advances from customers (Note 2.2(ii))	**—**	53,111
Other payables	**8,684**	13,814
	903,976	438,481

(a) Ageing analysis of trade payables based on invoice date is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 6 months	**541,037**	271,363
6 months to 1 year	**85,618**	24,768
1 year to 2 years	**45,469**	1,762
2 years to 3 years	**4,232**	4,168
	676,356	302,061

(b) Deposits for share subscription to be refunded represented the deposits from certain interested investors before the H share placing, which is not interest-bearing and will be refunded upon request.

26 BORROWINGS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Bank borrowings — secured	**470,000**	711,000
Bank borrowings — unsecured	**10,000**	10,000
Other borrowings — secured	**16,021**	—
	496,021	721,000

As at 31 December 2018 and 2017, all of the Group's borrowings are repayable within one year and denominated in RMB.

The weighted average effective interest rate as at 31 December 2018 was 5.95% (2017: 5.32%) per annum.

As at 31 December 2018, bank borrowings were secured by the Group's trade receivables and contract assets of totalling RMB400,697,000 and guaranteed by certain related parties (Note 28(b)) (As at 31 December 2017, bank borrowings were secured by the Group's buildings of RMB16,882,000, land use rights of RMB9,932,000, trade receivables of RMB75,706,000, and guaranteed by certain related parties).

27 CASH FLOW INFORMATION

(a) Cash generated from/(used in) operations

Reconciliation of profit before income tax to cash generated from/(used in) operations is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**149,017**	137,295
Adjustments for:		
— Depreciation of property and equipment and investment properties	**9,825**	9,123
— Amortisation of intangible assets	**1,772**	—
— Amortisation of land use right	**286**	286
— Provision of financial and contract assets	**20,126**	18,401
— Financial costs — net	**37,752**	29,830
— Amortisation of deferred revenue	**(73)**	(73)
	218,705	194,862
Changes in working capital:		
— Contract assets	**(335,950)**	(506,974)
— Contract liabilities	**11,791**	3,428
— Trade receivables, prepayments and other receivables	**(313,922)**	(61,882)
— Trade and other payables	**445,474**	25,647
— Changes of restricted cash on operating activities	**(6,399)**	82
Cash generated from/(used in) operations	**19,699**	(344,837)

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Cash and cash equivalents	**180,059**	281,750
Borrowings — repayable within one year	**(496,021)**	(721,000)
Net debt	**(315,962)**	(439,250)
Cash and cash equivalents	**180,059**	281,750
Gross debt — fixed interest rates	**(76,021)**	(120,000)
Gross debt — variable interest rates	**(420,000)**	(601,000)
Net debt	**(315,962)**	(439,250)

27 CASH FLOW INFORMATION *(Continued)*

(b) Net debt reconciliation *(Continued)*

	Cash RMB'000	Borrowings due within 1 year RMB'000	Total RMB'000
Net debt as at 31 December 2016	287,613	(310,000)	(22,387)
Cash flows	(3,682)	(411,000)	(414,682)
Foreign exchange adjustments	(2,181)	—	(2,181)
Net debt as at 31 December 2017	281,750	(721,000)	(439,250)
Cash flows	(101,193)	224,979	123,786
Foreign exchange adjustments	(498)	—	(498)
Net debt as at 31 December 2018	**180,059**	**(496,021)**	**(315,962)**

28 RELATED PARTY TRANSACTIONS

(a) Key management compensation

	Year ended 31 December	
	2018 **RMB'000**	2017 RMB'000
Salaries and other benefits	**2,713**	2,637
Contribution to pension scheme	**212**	206
Total	**2,925**	2,843

(b) The Group's bank borrowings of RMB420,000,000 as at 31 December 2018 have been guaranteed by Ms. Ye and certain shareholders of the Group (2017: RMB592,000,000).

29 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	As at 31 December	
	2018 RMB'000	2017 RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**10,504**	10,536
Property and equipment	**73,855**	82,578
Investment properties	**732**	775
Intangible asset	**3,545**	5,299
Deferred income tax assets	**26,976**	24,178
Other receivables	**20,941**	25,578
	136,553	148,944
Current assets		
Contract Assets	**1,581,757**	—
Amounts due from customers for contract work	—	1,255,340
Trade receivables	**589,087**	357,150
Prepayments and other receivables	**117,034**	74,435
Amounts due from subsidiaries	**11,842**	11,720
Restricted cash	**7,160**	761
Cash and cash equivalents	**179,880**	281,611
	2,486,760	1,981,017
Total assets	**2,623,313**	2,129,961

29 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(a) Statement of financial position of the Company *(Continued)*

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
EQUITY		
Equity attributable to owners of the Company		
Share capital	221,050	211,050
Share premium (b)	218,598	168,472
Other reserves (b)	77,428	63,518
Retained earnings (b)	570,052	459,256
Total equity	1,087,128	902,296
LIABILITIES		
Non-current liabilities		
Deferred revenue	1,701	1,774
Current liabilities		
Trade and other payables	903,976	438,481
Contract liabilities	107,856	—
Amounts due to customers for contract work	—	42,954
Borrowings	496,021	721,000
Amounts due to subsidiaries	9,472	9,504
Current income tax liabilities	17,159	13,952
	1,534,484	1,225,891
Total liabilities	1,536,185	1,227,665
Total equity and liabilities	2,623,313	2,129,961

The statement of financial position of the Company was approved by the board of directors on 28 March 2019 and was signed on its behalf.

Ye Yujing	**Ye Guofeng**
Director	*Director*

29 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(b) Reserve movement of the Company

	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2017	168,472	55,234	351,235	574,941
Comprehensive income				
— Profit for the year	—	—	116,305	116,305
Total comprehensive income	—	—	116,305	116,305
Transfer to statutory reserve	—	12,002	(12,002)	—
Utilisation of safety reserve	—	(3,718)	3,718	—
Balance at 31 December 2017	168,472	63,518	459,256	691,246
Balance at 1 January 2018	168,472	63,518	459,256	691,246
Comprehensive income				
— Profit for the year	—	—	131,038	131,038
Total comprehensive income	—	—	131,038	131,038
Issuance of ordinary shares	52,135	—	—	52,135
Share issuance costs	(2,009)	—	—	(2,009)
Transfer to statutory reserve	—	13,014	(13,014)	—
Transfer to safety reserve	—	896	(896)	—
Dividends for the year ended 31 December 2017	—	—	(6,332)	(6,332)
Balance at 31 December 2018	**218,598**	**77,428**	**570,052**	**866,078**